

Volume 6:

Finance

TABLE OF CONTENTS

VOLUME 6: FINANCE

<i>a. Accounting Systems: FRG Attestation, Cell Level Experience and Sample Financials</i>	<i>1</i>
<i>b. Financial Statements and Minimum Capitalization Requirements</i>	<i>25</i>
<i>c. Attachment H: Estimated Expenditure</i>	<i>Error! Bookmark not defined.</i>
<i>d. Statement of Capitation Rate Selection</i>	<i>Error! Bookmark not defined.</i>
<i>e. Cost Containment</i>	<i>Error! Bookmark not defined.</i>

a. Accounting Systems: FRG Attestation, Cell Level Experience and Sample Financials

I hereby attest that ValueOptions has reviewed the Financial Reporting Guide for Regional Behavioral Health Authorities, and has in place accounting systems that allow ValueOptions to comply with the requirements set forth in said Guide. I also attest that ValueOptions has adequate professional staff and sufficient internal controls and systems in place that are designed to account for both the Arizona Department of Health Services (ADHS)-related revenue/expenses and non-ADHS-related revenue/expenses by type and program.

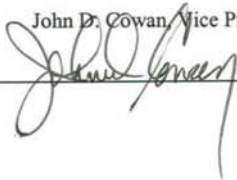
ValueOptions Finance Department has been responsible for identifying service and administrative expenditures at the rate cell level since the inception of its contract with ADHS/Division of Behavioral Health Services (DBHS) in 1999 and has complied, in all material respects, with the financial reporting requirements established by ADHS/DBHS. Samples of the financial statements are submitted herewith.

These statements are complete and accurate to the best of my knowledge. I understand that whoever knowingly and willfully makes or causes to be made a false statement on this statement may be prosecuted under applicable federal and/or state laws. In addition, knowing and willfully failing to fully and accurately make this statement may result in denial of a request to participate in this agreement or contract with DBHS.

Date Signed

John D. Cowan, Vice President/Chief Financial Officer

11/20/03



a. Accounting Systems: FRG Attestation, Cell Level Experience and Sample Financials

ValueOptions' Information Technology System is flexible, robust, and has the ability to track usage at several different levels, such as paid claims by level of care by rate cohort. This type of tracking is currently in place in most of ValueOptions' public sector programs. The Pennsylvania program provides a good example of this data usage. In this program we report monthly on claims paid by rate cohort (e.g. TANF, SSI with Medicare) by levels of care identified by the Department of Public Welfare. The ValueOptions Arizona Service Center has been responsible for identifying both service and administrative expenditures at the detail level required by ADHS/DBHS since the inception of its contract with ADHS/DBHS in 1999 and has complied with all financial reporting requirements established by ADHS/DBHS. We are currently providing financial information through the ADHS/DBHS e-forms for financial statements.

Furthermore, given ValueOptions' vast experience in the behavioral health public sector arena, we are intimately familiar with the relationship between member acuity and required administrative resources. On a national level, this relationship is reflected in the often-significant variance in capitation rates between seriously mentally ill members (typically SPMI or SSI rates) and those members who meet qualification based primarily on income rather than illness (i.e. AFDC or TANF). Therefore, we have developed the ability to allocate the various components of administrative expenses commensurate with the relative relationship of the capitation rates and expected medical expense. The result is that the preponderance of costs is allocated to those members whose severity of illness requires the greatest administrative resources.

Samples of the financial statements prepared for the ValueOptions Arizona Service Center are submitted herewith.

STATEMENT OF FINANCIAL POSITION
As of June 30, 2003
(Unaudited)

ASSETS

CURRENT ASSETS

101. Cash	\$ 32,311,059
102. Current Investments	-
103. Accounts receivable, net	10,033,829
104. Notes receivable, current maturities	-
105. Prepaid expenses	894,788
106. Other current assets	446,472
107. Total current assets	<u>\$ 43,686,148</u>

NONCURRENT ASSETS

108. Land	\$ -
109. Buildings	-
110. Leasehold improvements	208,154
111. Furniture and equipment	6,816,689
112. Vehicles	-
113. Total property and equipment	7,024,843
114. Less: accumulated depreciation	<u>(4,887,703)</u>
115. Net property and equipment	2,137,140
116. Notes receivable, less current maturities	-
117. Performance bond	5,802,429
118. Long-term investments	-
119. Deposits	500,757
120. Other noncurrent assets	-
121. Total noncurrent assets	<u>\$ 8,440,326</u>
122. Total assets	<u>\$ 52,126,474</u>

LIABILITIES AND EQUITY

CURRENT LIABILITIES

201. Incurred but not reported claims	\$ 2,571,039
202. Reported but unpaid claims	8,168,417
203. Recoupment/sanction liability	-
204. Other amounts payable to providers	1,406,806
205. Trade accounts payable	1,891,086
206. Accrued salaries and benefits	4,080,886
207. Long-term debt, current maturities	-
208. Deferred revenue (disclosed on Schedule A)	3,862,951
209. Risk pool payable	-
210. Other current liabilities	8,100,433
211. Total current liabilities	<u>\$ 30,081,618</u>

NONCURRENT LIABILITIES

212. Long-term debt, less current maturities	\$ -
213. Loss contingencies (disclosed on Schedule A)	-
214. Other noncurrent liabilities	43,261
215. Total noncurrent liabilities	<u>43,261</u>
216. Total liabilities	<u>\$ 30,124,879</u>

EQUITY

217.a Initial capital	\$ 10,000,000
217.b Additional capital	5,802,429
217.c Current net income	16,519,153
217.d Retained earnings	4,300,011
217.e Dividends Declared	<u>(14,619,998)</u>
217. Total equity	<u>22,001,595</u>
218. Total liabilities and equity	<u>\$ 52,126,474</u>

STATEMENT OF FINANCIAL POSITION
As of June 30, 2003
Schedule A Disclosures
(Unaudited)

ASSETS

<u>Cash</u>		
a. Restricted, covered services	\$	3,862,951
b. Unrestricted		28,448,108
Total	\$	<u>32,311,059</u>
<u>Accounts receivable</u>		
ADHS/DBHS		
Programs		
Title XIX Children	\$	-
Title XIX SMI		-
Title XIX SMI - HIFA II		-
Title XIX GMH/SA		-
Title XIX GMH/SA - HIFA II		-
Title XIX DD Child		200,265
Title XIX DD SMI		133,591
Title XXI Children/SMI		-
Non-Title XIX Children		349,877
Non-Title XIX SMI		4,779,279
Non-Title XIX GMH		198,511
Non-Title XIX Alcohol		-
Non-Title XIX Drug		1,363,661
Non-Title XIX Prevention		310,698
ADHS/ADOC COOL		-
Tobacco Tax		-
Claims & Encounters		-
PASARR		6,300
Compulsive Gambling		-
Community Placement		-
HB2003 Child		-
HB2003 SMI		-
Subtotal ADHS/DBHS receivables	\$	7,342,183
Other		
Implementation receivable, current	\$	-
RxInnovations		-
Casa Buena		506,906
Housing - Stargate Village		-
Non-HB2003 provider receivables		1,872,752
Rehabilitative Services Administration		23,880
Accrued interest receivable		33,707
Case management		1,476
HB2003 provider receivables		-
Medicare receivable		226,218
Employee receivables		26,708
Subtotal other receivables	\$	2,691,646
Allowance for doubtful accounts		-
Total accounts receivable	\$	<u>10,033,829</u>
<u>Other current assets</u>		
Deferred tax asset	\$	446,472
Total other current assets	\$	<u>446,472</u>
<u>Other noncurrent assets</u>		
Total other noncurrent assets	\$	<u>-</u>

STATEMENT OF FINANCIAL POSITION
As of June 30, 2003
Schedule A Disclosures
(Unaudited)

LIABILITIES

IBNR retirement

Current fiscal year	\$ 2,571,039
One year prior to current fiscal year	-

Total IBNR	\$ 2,571,039
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Deferred revenue

Current fiscal year	\$ 3,862,951
One year prior to current fiscal year	-
Two years prior to current fiscal year	-

Total deferred revenue	\$ 3,862,951
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Other current liabilities

Accrued audit fees	\$ 10,664
Due to affiliates	5,937,915
Income tax payable to parent	2,077,346
Insurance	72,333
Sanctions and penalties payable	-
Miscellaneous	2,175

Total other current liabilities	\$ 8,100,433
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Other noncurrent liabilities

Deferred taxes	\$ 43,261
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Total other noncurrent liabilities	\$ 43,261
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Performance bond:

Type of security

Included in financial statements

Claims payable analysis

Prior period adjustments

Performance Bond

Claims Payable Analysis

Type of security - Surety bond and cash deposit noted below.

Included in financial statements? - Yes, partially. \$ 5,802,429

Prior Period Adjustments

STATEMENT OF RETAINED EARNINGS

As of June 30, 2003

(Unaudited)

	Initial Capital	Additional Capital	Retained Earnings	Total
901. Balance, July 1, 2002	\$ 10,000,000	\$ -	\$ 4,300,011	\$ 14,300,011
902. Net earnings for the period ended June 30, 2003, net of dividends declared	-	-	16,519,153	16,519,153
902.a Dividends declared		-	(14,619,998)	(14,619,998)
902.b Additional capital for performance bond		5,802,429	-	5,802,429
903. Prior Period Adjustments	-	-	-	-
904. Balance, June 30, 2003	<u>\$ 10,000,000</u>	<u>\$ 5,802,429</u>	<u>\$ 6,199,166</u>	<u>\$ 22,001,595</u>

**SCHEDULE OF
DEFERRED REVENUE
As of June 30, 2003
(Unaudited)**

	Beginning Balance	July 2002		August 2002		September 2002	
	Credit	Debit	Credit	Debit	Credit	Debit	Credit
St. Lukes Grant	\$ 14,846	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Title XIX Child	-	-	-	-	-	-	-
Title XIX SMI	-	-	1,320,652	1,320,652	4,004,808	4,004,808	-
Title XIX GMH/SA	-	-	-	-	-	-	-
Non-Title XIX Child	-	-	-	-	-	-	-
Non-Title XIX SA	-	-	-	-	-	-	-
Title XXI	-	-	-	-	-	-	-
HB 2003 Child	2,709,117	111,965	-	225,317	-	170,132	-
HB 2003 SMI	2,081,183	931,549	-	570,513	-	455,053	-
Prevention	48,062	-	-	-	-	-	-
Total Deferred Revenue	<u>\$ 4,853,208</u>	<u>\$ 1,043,514</u>	<u>\$ 1,320,652</u>	<u>\$ 2,116,482</u>	<u>\$ 4,004,808</u>	<u>\$ 4,629,993</u>	<u>\$ -</u>

**SCHEDULE OF
DEFERRED REVENUE
As of June 30, 2003
(Unaudited)**

	October 2002		November 2002		December 2002		January 2003	
	Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit
St. Lukes Grant	\$ 14,846	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Title XIX Child	-	-	-	-	-	-	-	-
Title XIX SMI	-	-	-	-	-	-	-	-
Title XIX GMH/SA	-	-	-	-	-	-	-	-
Non-Title XIX Child	-	-	-	-	-	-	-	-
Non-Title XIX SA	-	-	-	-	-	-	-	-
Title XXI	-	-	-	-	-	-	-	-
HB 2003 Child	288,932	-	-	569,823	451,975	-	602,204	-
HB 2003 SMI	-	3,318,028	-	465,674	427,104	-	-	1,245,224
Prevention	48,062	-	-	-	-	-	-	-
Total Deferred Revenue	<u>\$ 351,840</u>	<u>\$ 3,318,028</u>	<u>\$ -</u>	<u>\$ 1,035,497</u>	<u>\$ 879,079</u>	<u>\$ -</u>	<u>\$ 602,204</u>	<u>\$ 1,245,224</u>

**SCHEDULE OF
DEFERRED REVENUE
As of June 30, 2003
(Unaudited)**

	February 2003		March 2003		April 2003		May 2003	
	Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit
St. Lukes Grant	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Title XIX Child	-	-	-	-	-	-	-	-
Title XIX SMI	-	-	-	-	-	-	-	-
Title XIX GMH/SA	-	-	-	-	-	-	-	-
Non-Title XIX Child	-	-	-	-	-	-	-	-
Non-Title XIX SA	-	-	-	-	-	-	-	-
Title XXI	-	-	-	-	-	-	-	-
HB 2003 Child	646,504	-	550,418	-	332,689	-	-	516,456
HB 2003 SMI	-	175,692	279,548	-	-	75,488	547,065	-
Prevention	-	-	-	-	-	-	-	-
Total Deferred Revenue	<u>\$ 646,504</u>	<u>\$ 175,692</u>	<u>\$ 829,966</u>	<u>\$ -</u>	<u>\$ 332,689</u>	<u>\$ 75,488</u>	<u>\$ 547,065</u>	<u>\$ 516,456</u>

**SCHEDULE OF
DEFERRED REVENUE
As of June 30, 2003
(Unaudited)**

	June 2003		Total		Ending Balance
	Debit	Credit	Debit	Credit	Credit
St. Lukes Grant	\$ -	\$ -	\$ 14,846	\$ 14,846	\$ -
Title XIX Child	-	-	-	-	-
Title XIX SMI	-	-	5,325,460	5,325,460	-
Title XIX GMH/SA	-	-	-	-	-
Non-Title XIX Child	-	-	-	-	-
Non-Title XIX SA	-	-	-	-	-
Title XXI	-	-	-	-	-
HB 2003 Child	-	15,433	3,380,136	3,810,829	430,693
HB 2003 SMI	718,311	113	3,929,143	7,361,401	3,432,258
Prevention	-	-	48,062	48,062	-
Total Deferred Revenue	<u>\$718,311</u>	<u>\$ 15,546</u>	<u>\$ 12,697,647</u>	<u>\$ 16,560,598</u>	<u>\$ 3,862,951</u>

STATEMENT OF EARNINGS
Year-to date for the quarter ended June 30, 2003
(Unaudited)

	Title XIX Child	Title XIX DD Child	Non-Title XIX Child	Title XXI Child	HB 2003 Child	Title XIX SMI	SMI	Title XIX DD SMI	Non-Title XIX SMI	HBFA SMI	Title XXI SMI	HB 2003 SMI
REVENUE												
401. Revenue under ADHS/DHHS contract	\$ 58,446,371	\$ 3,503,878	\$ 8,270,905	\$ 2,331,625	\$ 4,439,933	\$ 151,415,498	\$ 2,346,013	\$ 74,096,881	\$ 2,156,958	\$ 224,564	\$ 8,445,009	
402. Specialty and other grants (disclosed in Schedule A)	-	-	-	-	-	-	-	-	-	-	-	-
403. Client fees (payments)	-	-	-	-	-	-	-	9,608	-	10,926	-	-
404. Third party recoveries	-	-	-	-	-	-	-	-	-	-	-	-
A. Medicare	-	-	-	-	-	-	-	216,462	-	157,611	-	-
B. Other insurance	-	-	-	-	-	-	-	-	-	-	-	-
405. Interest income	-	-	-	-	-	-	-	-	-	-	-	-
406. Other (disclosed in Schedule A)	-	-	-	-	-	-	-	-	-	-	-	-
407. Unrelated business activities (disclosed in Schedule A)	-	-	-	-	-	-	-	-	-	-	-	-
408. TOTAL REVENUE	58,446,371	3,503,878	8,270,905	2,331,625	4,439,933	151,641,566	2,346,013	74,954,973	2,156,958	224,564	8,445,009	
EXPENSES												
Service expense:												
501. Treatment services												
A. Counseling												
1. Individual	6,470,084	282,928	1,183,444	583,808	-	4,823,705	64,513	2,623,477	488,982	177	-	-
2. Family	6,612,793	376,287	1,055,370	643,900	-	103,126	2,877	67,836	-	195	-	-
3. Group	340,961	6,175	165,217	40,917	-	1,701,228	4,308	260,105	33,996	12	-	-
B. Consultation, assessment and specialized testing	4,011,664	226,046	665,847	390,416	-	2,352,815	87,691	1,476,903	94,228	118	-	-
C. Other professional	27	-	2,529	-	-	-	-	-	3,479	-	-	-
D. Total treatment services	17,435,529	891,436	3,072,407	1,659,041	-	8,980,874	159,389	4,440,500	617,346	502	-	-
502. Rehabilitation services												
A. Living skills training	457,029	164,747	16,216	7,937	-	7,850,633	74,500	2,999,647	68,012	2	-	-
B. Cognitive rehabilitation	-	-	-	-	-	-	-	950	50,913	-	-	-
C. Health promotion	34,332	2,646	1,086	920	-	151,345	-	-	-	-	-	-
D. Supported employment services	3,043	-	377	1,865	-	2,134,374	127,352	837,632	47,793	1	-	-
E. Total rehabilitation services	495,304	167,393	18,479	9,678	-	10,136,352	212,803	3,897,193	115,805	3	-	-
503. Medical services												
A. Medication services	1,187	-	224	1,682	-	628,334	9,086	124,483	1,145	1	-	-
B. Medical management	3,004,406	336,160	334,260	257,341	-	2,662,121	79,072	1,470,544	72,005	78	-	-
C. Laboratory, radiology and medical imaging	48,359	6,825	8,405	4,174	-	580,446	26,008	422,938	35,598	1	-	-
D. Electro-convulsive therapy	-	-	-	-	-	7,873	-	7,714	-	-	-	-
E. Total medical services	3,055,952	342,985	342,889	263,197	-	5,879,774	114,166	2,025,641	108,748	80	-	-
504. Support services												
A. Case management	-	-	-	-	-	39,868,033	-	27,628,447	184,220	-	-	-
B. Personal assistance	507,990	146,500	2,718	933	-	9,458,623	100,216	2,929,332	-	-	-	-
C. Family support	315,703	39,175	33,856	22,131	-	41,411	-	35,384	-	7	-	-
D. Peer support	22,905	4,911	3,957	1,385	-	245,050	1,247	109,905	5,843	-	-	-
E. Therapeutic foster care services	99,635	-	-	-	-	-	-	-	-	-	-	-
F. Respite care	1,734,892	34,426	155,398	77,662	-	150	-	-	-	23	-	-
G. Housing support	-	-	-	-	-	-	-	1,073,532	-	-	-	-
H. Interpreter services	-	-	45,939	-	-	-	-	14,695	-	-	-	-
I. Flex fund services	-	-	291,899	-	-	-	-	208,072	6,550	-	-	-
J. Transportation	795,203	27,300	103,690	38,310	-	2,337,657	32,230	900,465	26,458	12	-	-
K. Block purchase Non-Title XIX consumer drop-in center	-	-	-	-	-	-	-	813,096	-	-	-	-
L. Total support services	2,276,728	252,512	637,457	140,621	-	51,990,924	133,693	33,712,928	223,071	42	-	-
505. Crisis intervention services												
A. Crisis intervention - mobile	338,275	31,121	167,480	21,136	-	528,210	111,782	319,984	2,333	6	-	-
B. Crisis services	111,167	4,064	41,129	13,539	-	1,336,397	35,680	592,692	12,723	4	-	-
C. Crisis phones	-	-	-	-	-	1,660,090	-	1,155,428	-	-	-	-
D. Total crisis intervention services	449,442	35,185	208,613	34,675	-	3,553,903	167,472	2,068,104	13,056	10	-	-
506. Inpatient services												
A. Hospital												
1. Psychiatric	3,733,347	102,143	191,886	123,777	-	4,404,737	70,887	1,360,670	-	37	-	-
2. Detoxification	-	-	-	-	-	14,704	-	-	-	-	-	-
B. Subacute facility	-	-	648	-	-	-	-	-	-	-	-	-
1. Psychiatric	-	-	-	-	-	-	-	-	-	-	-	-
2. Detoxification	-	-	-	-	-	-	-	-	-	-	-	-
C. Residential treatment center (RTC)												
1. Psychiatric	9,004,474	142,635	1,087,700	70,760	-	18,596	-	13,099	-	21	-	-
2. Detoxification	-	-	-	-	-	-	-	-	-	-	-	-
D. Inpatient services, professional	269,793	2,189	16,371	12,219	-	90,730	9,839	68,657	-	4	-	-
E. Total inpatient services	13,008,606	247,967	1,296,707	206,696	-	4,528,787	80,726	1,451,406	-	62	-	-
507. Residential services												
A. Level I behavioral health facilities	5,911,534	58,031	146,308	46,033	-	9,947,318	15,431	4,017,124	-	14	-	-
B. Level II behavioral health facilities	225,476	-	25,382	-	-	2,524,700	-	550,500	-	-	-	-
C. Room and board	-	-	402,541	-	-	-	-	1,551,866	-	-	-	-
D. Total residential services	4,137,000	58,031	574,431	46,033	-	12,472,018	15,431	6,119,590	-	14	-	-
508. Behavioral health day programs												
A. Supervised day program	207,700	5,890	26,182	2,592	-	631,316	914	207,192	55,624	1	-	-
B. Therapeutic day program	603,543	7,371	205,280	40,560	-	2,629,475	19,443	883,216	37,028	12	-	-
C. Medical day program	112,308	4,170	3,245	2,158	-	4,707	-	1,387	-	1	-	-
D. Total behavioral day programs	1,223,551	17,431	234,707	45,310	-	2,665,559	20,377	1,151,795	112,652	14	-	-
509. Prevention services												
A. Prevention	-	-	-	-	-	-	-	-	-	-	-	-
B. HIV	-	-	-	-	-	-	-	-	-	-	-	-
C. Total prevention services	-	-	-	-	-	-	-	-	-	-	-	-
510. Medications	5,904,979	1,173,717	754,556	453,692	-	18,124,342	1,824,020	13,147,787	90,844	14,191	-	-
511. Other expense not reported above (Itemize on Schedule A)	-	-	-	-	-	4,035,780	-	-	-	-	-	7,712,529
512. ADHS/DOC COGL	-	-	-	-	-	-	-	-	-	-	-	-
513. Subtotal service expense	49,065,091	3,186,437	7,118,248	2,859,143	-	4,035,780	116,332,532	2,729,077	68,014,944	1,283,322	14,918	7,712,529
Administrative Expenses:												
601. Salaries	962,884	56,691	135,015	38,474	-	2,489,291	37,982	1,226,962	35,372	3,706	-	-
602. Employee benefits	235,895	15,066	35,882	10,225	-	661,552	10,094	326,077	9,434	985	-	-
603. Professional and outside services	208,368	12,268	29,217	8,326	-	538,683	8,219	265,515	7,698	802	-	-
604. Travel	6,540	409	973	277	-	17,941	274	8,843	256	27	-	-
605. Occupancy	285,720	16,822	40,064	11,417	-	736,656	11,271	364,881	10,555	1,100	-	-
606. Depreciation and amortization	90,140	5,438	13,964	3,962	-	5,977	256,353	3,911	126,556	3,663	382	11,545
607. All other operating	2,700,813	139,013	378,707	107,917	-	266,459	6,092,263	166,536	3,441,533	99,777	10,395	314,702
608. Subtotal administrative expense	4,519,780	266,107	633,762	180,598	-	272,436	11,684,739	178,287	5,759,367	166,975	17,397	526,247
701. Unrelated business expense	-	-	-	-	-	-	-	-	-	-	-	-
799. Income tax provision	1,012,001	19,935	201,890	(275,103)	-	51,172	9,178,028	(217,607)	726,578	274,337	74,680	80,121
800. TOTAL EXPENSE	55,436,872	3,472,499	7,953,600	2,764,640	-	4,359,388	137,195,299	2,688,667	74,500,889	1,724,834	107,064	8,318,897
801. Net income / (loss) after provision for income tax	\$ 3,009,499	\$ 31,379	\$ 317,305	\$ (433,015)	\$ 80,545	\$ 14,446,269	\$ (342,654)	\$ 454,084	\$ 432,124	\$ 117,560	\$ 126,112	

STATEMENT OF EARNINGS
Year-to-date for the quarter ended June 30, 2003
(Unaudited)

	Title XIX GMHSA	HFBA GMBI	Mental Health	Alcohol	Substance Abuse	Prevention Intervention	PASARR	ADHS-DOC	Other	Subtotal	Management & General	Total
REVENUE												
401. Revenue under ADHS-DOHS contract	\$ 37,821,206	\$ 538,774	\$ 2,202,505	\$ -	\$ 22,942,630	\$ 5,919,573	\$ 63,600	\$ 1,699,589	\$ -	\$ 386,865,312	\$ -	\$ 386,865,312
402. Specialty and other grants (disclosed in Schedule A)	-	-	-	-	-	-	-	-	-	-	-	-
403. Clinical fees (therapy)	166	-	440	-	170	-	-	-	-	21,256	-	21,256
404. Third party reimburse												
A. Medicare	1,451	-	5,919	-	458	-	-	-	-	381,901	-	381,901
B. Other insurance	-	-	-	-	-	-	-	-	-	-	-	-
405. Interest income	-	-	-	-	-	-	-	-	-	473,172	-	473,172
406. Other (disclosed in Schedule A)	-	-	-	-	-	-	-	-	3,903,471	3,993,026	-	3,993,026
407. Unrelated business activities (disclosed in Schedule A)	-	-	-	-	-	-	-	-	-	-	-	-
408. TOTAL REVENUE	37,822,763	538,774	2,208,870	-	22,943,258	5,919,573	63,600	1,699,589	3,903,471	391,261,695	473,172	391,734,867
EXPENSES												
Service expenses:												
501. Treatment services												
A. Counseling												
1. Individual	6,765,292	61,446	320,636	-	912,332	-	-	-	-	24,580,824	-	24,580,824
2. Family	444,804	7,212	23,139	-	22,821	-	-	-	-	9,440,300	-	9,440,300
3. Group	3,598,890	15,029	75,139	-	1,220,147	-	-	-	-	7,441,064	-	7,441,064
B. Consultation, assessment and specialized testing	3,987,680	55,984	1,044,193	-	647,292	-	-	-	-	15,044,577	-	15,044,577
C. Other professional	-	-	10,185	-	282,707	-	-	-	-	208,927	-	208,927
D. Total treatment services	14,876,666	139,671	1,477,292	-	3,095,299	-	-	-	-	56,805,732	-	56,805,732
502. Rehabilitation services												
A. Living skills training	105,412	552	13,695	-	7,280	-	-	-	-	11,764,628	-	11,764,628
B. Cognitive rehabilitation	-	-	-	-	-	-	-	-	-	-	-	-
C. Health promotion	18,067	42	600	-	8,302	-	-	-	-	278,803	-	278,803
D. Supported employment services	352,199	108	3,126	-	61,373	-	-	-	-	3,550,545	-	3,550,545
E. Total rehabilitation services	445,678	702	17,421	-	77,165	-	-	-	-	15,593,976	-	15,593,976
503. Medical services												
A. Medication services	3,240,750	5,699	18,628	-	1,416,583	-	-	-	-	5,448,804	-	5,448,804
B. Medical management	2,280,824	19,076	246,245	-	137,919	-	-	-	-	10,900,051	-	10,900,051
C. Laboratory, radiology and medical imaging	78,901	1,788	10,137	-	5,918	-	-	-	-	1,229,458	-	1,229,458
D. Electroconvulsive therapy	-	-	-	-	-	-	-	-	-	15,587	-	15,587
E. Total medical services	5,600,475	26,563	275,010	-	1,560,420	-	-	-	-	17,593,900	-	17,593,900
504. Support services												
A. Case management	899,373	33,413	390,377	-	468,835	-	-	-	-	69,382,700	-	69,382,700
B. Personal assistance	66,133	-	69	-	28	-	-	-	-	13,012,562	-	13,012,562
C. Family support	3,720	-	4,778	-	784	-	-	-	-	496,949	-	496,949
D. Peer support	13,829	2,690	346,818	-	351,450	-	-	-	-	1,109,990	-	1,109,990
E. Therapeutic foster care services	-	-	-	-	-	-	-	-	-	99,635	-	99,635
F. Respite care	600	-	-	-	-	-	-	-	-	2,003,211	-	2,003,211
G. Housing support	-	-	8,345	-	-	-	-	-	-	1,081,877	-	1,081,877
H. Inspector services	-	-	13,844	-	-	-	-	-	-	74,478	-	74,478
I. Flex fund services	-	-	60,673	-	76,416	-	-	-	-	643,610	-	643,610
J. Transportation	3,075,444	1,283	353,819	-	250,619	-	-	-	-	7,983,190	-	7,983,190
K. Block purchase Non-Title XIX consumer drop-in center	-	-	-	-	369,960	-	-	-	-	1,183,056	-	1,183,056
L. Total support services	3,969,179	37,688	1,178,723	-	1,518,092	-	-	-	-	97,071,258	-	97,071,258
505. Crisis intervention services												
A. Crisis intervention - mobile	517,084	3,501	800,687	-	84,663	-	-	-	-	2,926,868	-	2,926,868
B. Crisis services	2,740,037	9,919	1,171,662	-	1,253,154	-	-	-	-	7,361,577	-	7,361,577
C. Crisis Phones	32,429	-	15,207	-	18,455	-	-	-	-	2,899,715	-	2,899,715
D. Total crisis intervention services	3,290,150	13,420	1,987,656	-	1,356,272	-	-	-	-	13,178,160	-	13,178,160
506. Inpatient services												
A. Hospital												
1. Psychiatric	1,134,504	-	933,354	-	44,917	-	-	-	-	12,109,379	-	12,109,379
2. Detoxification	23,562	-	-	-	2,276	-	-	-	-	40,542	-	40,542
B. Subacute facility												
1. Psychiatric	-	-	-	-	-	-	-	-	-	648	-	648
2. Detoxification	-	-	-	-	-	-	-	-	-	-	-	-
C. Residential treatment center (RTC)												
1. Psychiatric	404	-	-	-	-	-	-	-	-	10,339,629	-	10,339,629
2. Detoxification	-	-	-	-	-	-	-	-	-	-	-	-
D. Inpatient services, professional	13,556	-	16,054	-	807	-	-	-	-	500,343	-	500,343
E. Total inpatient services	1,171,976	-	950,208	-	47,600	-	-	-	-	22,990,741	-	22,990,741
507. Residential services												
A. Level II behavioral health facilities	5,673,929	22,677	71,832	-	1,174,927	-	-	-	-	25,105,168	-	25,105,168
B. Level III behavioral health facilities	-	-	-	-	-	-	-	-	-	3,326,258	-	3,326,258
C. Room and board	-	2,861	115,667	-	1,206,585	-	-	-	-	3,278,620	-	3,278,620
D. Total residential services	5,673,929	25,538	187,519	-	2,381,512	-	-	-	-	31,711,046	-	31,711,046
508. Behavioral health day programs												
A. Supervised day program	10,640	392	2,794	-	828	-	-	-	-	1,212,265	-	1,212,265
B. Therapeutic day program	1,753,777	5,984	38,664	-	1,087,602	-	-	-	-	7,652,375	-	7,652,375
C. Medical day program	2,150	-	-	-	-	-	-	-	-	130,186	-	130,186
D. Total behavioral day programs	1,766,567	6,376	41,458	-	1,088,430	-	-	-	-	8,394,826	-	8,394,826
509. Prevention services												
A. Prevention	-	-	-	-	-	5,710,347	-	-	-	5,710,347	-	5,710,347
B. HIV	-	-	-	-	-	393,034	-	-	-	393,034	-	393,034
C. Total prevention services	-	-	-	-	-	393,034	5,710,347	-	-	6,103,381	-	6,103,381
510. Medications	8,171,892	41,521	253,808	-	26,120	-	-	-	-	49,961,469	-	49,961,469
511. Other expense not reported above (disclosed on Schedule A)	-	-	-	-	-	-	58,512	-	-	11,806,821	-	11,806,821
512. ADHS-DOC COOL	-	-	-	-	-	-	-	1,563,622	-	1,563,622	-	1,563,622
513. Subtotal service expense	44,948,512	291,679	6,369,099	-	11,543,144	5,710,347	58,512	1,563,622	-	332,773,952	-	332,773,952
Administrative Expenses:												
601. Salaries	622,950	8,885	36,335	-	407,161	97,173	1,084	28,966	315,468	6,504,599	37,365	6,541,964
602. Employee benefits	165,555	2,361	9,656	-	108,207	25,825	288	7,698	83,839	1,728,659	9,930	1,738,589
603. Professional and outside services	134,807	1,023	7,863	-	88,110	21,028	235	6,268	68,267	1,407,597	8,046	1,415,683
604. Travel	4,490	64	262	-	2,934	700	8	209	2,274	46,881	269	47,130
605. Occupancy	144,450	2,637	10,782	-	120,818	28,834	322	8,393	97,610	1,990,134	11,088	1,941,222
606. Depreciation and amortization	64,133	915	3,742	-	41,990	10,067	112	2,983	32,498	687,381	3,848	691,229
607. All other operating	1,742,124	24,932	101,012	-	1,142,055	272,563	3,040	81,248	884,862	19,026,048	104,807	19,130,855
608. Subtotal administrative expense	2,924,130	41,708	170,557	-	1,911,215	456,130	5,089	135,967	1,480,808	31,331,299	175,330	31,506,692
700. Unrelated business expense	-	-	-	-	-	-	-	-	-	-	-	-
799. Income tax provision	(3,904,372)	79,730	(1,682,506)	-	3,686,432	(95,922)	-	-	708,105	10,817,383	115,687	10,913,070
800. TOTAL EXPENSE	43,968,270	413,140	4,857,146	-	17,140,791	6,070,555	63,601	1,699,589	2,188,913	374,924,634	291,080	375,215,714
801. Net income (loss) after provision for income tax	\$ (6,145,507)	\$ 125,594	\$ (2,648,276)	\$ -	\$ 5,802,467	\$ (150,982)	\$ (1)	\$ -	\$ 1,714,558	\$ 16,337,061	\$ 182,092	\$ 16,519,153

STATEMENT OF EARNINGS
Year-to-date for the quarter ended June 30, 2003
Schedule A Disclosures
(Unaudited)

	Title XIX Child	Title XIX DD Child	Non-Title XIX Child	Title XXI Child	HB 2003 Child	Title XIX SMI
<u>UNEARNED REVENUE FOR CURRENT YEAR</u>						
Revenue under ADHS/DBHS contract	\$ -	\$ -	\$ -	\$ -	\$ (2,278,424)	\$ -
Other (disclose)						
St. Lukes grant						
Total unearned revenue	\$ -	\$ -	\$ -	\$ -	\$ (2,278,424)	\$ -

DISCLOSURE OF OTHER GRANTS REPORTED ON LINE 402

Source:

	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Total other grants	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

DISCLOSURE OF OTHER REVENUE REPORTED ON LINE 406

Itemization of other revenue:

Casa Buena administration	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Compulsive gambling						
Housing - Stargate Village & HUD 125						
Miscellaneous						
Pharmacy rebates						
Rehabilitative Services Administration						
St. Lukes grant						
Total other revenue	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

UNRELATED BUSINESS ACTIVITIES REPORTED ON LINE 407

Source of revenue:

	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Total unrelated business activities	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

DISCLOSURE OF OTHER EXPENSES REPORTED ON LINE 511

Itemization of the items reported on Line 511

HB2003 Children and Adult services	\$ -	\$ -	\$ -	\$ -	\$ 4,035,780	\$ -
PASARR						
Total other expenses	\$ -	\$ -	\$ -	\$ -	\$ 4,035,780	\$ -

DISCLOSURE OF NON-ADHS SERVICE EXPENSES

Stargate Village service value	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Total Non-ADHS Service Expenses	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

DISCLOSURE OF NON-ADHS ADMINISTRATIVE EXPENSES

Casa Buena	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Pharmacy benefit management						
Rehabilitative Services Administration						
St. Lukes grant						
Total Non-ADHS Administrative Expenses	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

PRIOR PERIOD ADJUSTMENTS

META reclassification due to loss of JCAHO certification

	Dr.	Cr.
Non-Title XIX Child	\$ 209,350	
Non-Title XIX SMI	719,748	
Non-Title XIX GMH	240,740	
Title XIX Child		187,928
Title XIX SMI		719,748
Title XIX GMH/SA		240,740
Title XXI Child		21,422
	\$ 1,169,838	\$ 1,169,838

SEH DISCLOSURES

Year-to-date service expenses	\$ 1,631,842
Number of children currently in residential placement	16
Year-to-date count of children treated in residential placements	31
Number of children currently being treated with SEH funds in non-residential	331
Year-to-date count of number of children treated with SEH funds in non-residential	697
Funds in Non-residential placements	

STATEMENT OF EARNINGS
Year-to-date for the quarter ended June 30, 2003
Schedule A Disclosures
(Unaudited)

	Title XIX DD SMI	HIFA SMI	Non-Title XIX SMI	Title XXI SMI	HB 2003 SMI	Title XIX GMH/SA
UNEARNED REVENUE FOR CURRENT YEAR						
Revenue under ADHS/DBHS contract	\$ -	\$ -	\$ -	\$ -	\$ 1,351,075	\$ -
Other (disclose)						
St. Lukes grant						
Total unearned revenue	\$ -	\$ -	\$ -	\$ -	\$ 1,351,075	\$ -

DISCLOSURE OF OTHER GRANTS REPORTED ON LINE 402

Source:

	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Total other grants	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

DISCLOSURE OF OTHER REVENUE REPORTED ON LINE 406

Itemization of other revenue:

Casa Buena administration	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Compulsive gambling						
Housing - Stargate Village & HUD 125			\$ 689,555			
Miscellaneous						
Pharmacy rebates						
Rehabilitative Services Administration						
St. Lukes grant						
Total other revenue	\$ -	\$ -	\$ 689,555	\$ -	\$ -	\$ -

UNRELATED BUSINESS ACTIVITIES REPORTED ON LINE 407

Source of revenue:

	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Total unrelated business activities	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

DISCLOSURE OF OTHER EXPENSES REPORTED ON LINE 511

Itemization of the items reported on Line 511

HB2003 Children and Adult services	\$ -	\$ -	\$ -	\$ -	\$ 7,712,529	\$ -
PASARR						
Total other expenses	\$ -	\$ -	\$ -	\$ -	\$ 7,712,529	\$ -

DISCLOSURE OF NON-ADHS SERVICE EXPENSES

Stargate Village service value	\$ -	\$ -	\$ 689,555	\$ -	\$ -	\$ -
Total Non-ADHS Service Expenses	\$ -	\$ -	\$ 689,555	\$ -	\$ -	\$ -

DISCLOSURE OF NON-ADHS ADMINISTRATIVE EXPENSES

Casa Buena	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Pharmacy benefit management						
Rehabilitative Services Administration						
St. Lukes grant						
Total Non-ADHS Administrative Expenses	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

PRIOR PERIOD ADJUSTMENTS

META reclassification due to loss of JCAHO certification

Notes:

This journal entry does not meet the tests under existing authoritative literature to be classified as a Prior Period Adjustment. It is included in this section at the request of the ADHS for their reporting purposes. The entry was made at the request of the ADHS. META, a provider of ValueOptions that operates a JCAHO accredited UCC and Sub-Acute facility, allowed its accreditation to lapse. For the period of time for which it had no accreditation, the ADHS has required that all payments made be classified as Non-Title XIX.

While the treatment required is not consistent with the expense recognition practices of ValueOptions, the reclassification has been made as detailed in the journal entry to the left. ValueOptions recognizes expense as per its contracts and payments, in keeping with its risk based arrangements with providers. Typically, it does not revisit contract allocations outside of its annual contracting cycle. ValueOptions believes its expense recognition practices are consistent with GAAP as it applies to risk-based arrangements.

STATEMENT OF EARNINGS
Year-to-date for the quarter ended June 30, 2003
Schedule A Disclosures
(Unaudited)

	ADHS/DOC	Other	Subtotal	Management & General	Total
<u>UNEARNED REVENUE FOR CURRENT YEAR</u>					
Revenue under ADHS/DBHS contract	\$ -	\$ -	\$ (975,411)	\$ -	\$ (975,411)
Other (disclose)		(14,846)	(14,846)		(14,846)
St. Lukes grant					
Total unearned revenue	\$ -	\$ (14,846)	\$ (990,257)	\$ -	\$ (990,257)

DISCLOSURE OF OTHER GRANTS REPORTED ON LINE 402

Source:

	\$ -	\$ -	\$ -	\$ -	\$ -
Total other grants	\$ -	\$ -	\$ -	\$ -	\$ -

DISCLOSURE OF OTHER REVENUE REPORTED ON LINE 406

Itemization of other revenue:

Casa Buena administration	\$ -	\$ 244,989	\$ 244,989	\$ -	\$ 244,989
Compulsive gambling		31,468	31,468		31,468
Housing - Stargate Village & HUD 125			689,555		689,555
Miscellaneous		86,950	86,950		86,950
Pharmacy rebates		2,883,686	2,883,686		2,883,686
Rehabilitative Services Administration		34,557	34,557		34,557
St. Lukes grant		21,821	21,821		21,821
Total other revenue	\$ -	\$ 3,303,471	\$ 3,993,026	\$ -	\$ 3,993,026

UNRELATED BUSINESS ACTIVITIES REPORTED ON LINE 407

Source of revenue:

	\$ -	\$ -	\$ -	\$ -	\$ -
Total unrelated business activities	\$ -	\$ -	\$ -	\$ -	\$ -

DISCLOSURE OF OTHER EXPENSES REPORTED ON LINE 511

Itemization of the items reported on Line 511

HB2003 Children and Adult services	\$ -	\$ -	\$ 11,748,309	\$ -	\$ 11,748,309
PASARR			58,512		58,512
Total other expenses	\$ -	\$ -	\$ 11,806,821	\$ -	\$ 11,806,821

DISCLOSURE OF NON-ADHS SERVICE EXPENSES

Stargate Village service value	\$ -	\$ -	\$ 689,555	\$ -	\$ 689,555
Total Non-ADHS Service Expenses	\$ -	\$ -	\$ 689,555	\$ -	\$ 689,555

DISCLOSURE OF NON-ADHS ADMINISTRATIVE EXPENSES

Casa Buena	\$ -	\$ 244,989	\$ 244,989	\$ -	\$ 244,989
Pharmacy benefit management		1,179,441	1,179,441		1,179,441
Rehabilitative Services Administration		34,557	34,557		34,557
St. Lukes grant		21,821	21,821		21,821
Total Non-ADHS Administrative Expenses	\$ -	\$ 1,480,808	\$ 1,480,808	\$ -	\$ 1,480,808

PRIOR PERIOD ADJUSTMENTS

META reclassification due to loss of JCAHO certification

STATEMENT OF EARNINGS
Year-to-date for the quarter ended June 30, 2003
Schedule A Disclosures
(Unaudited)

	HIFA GMH	Mental Health	Alcohol	Substance Abuse	Prevention Intervention	PASARR
UNEARNED REVENUE FOR CURRENT YEAR						
Revenue under ADHS/DBHS contract	\$ -	\$ -		\$ -	\$ (48,062)	\$ -
Other (disclose)						
St. Lukes grant						
Total unearned revenue	\$ -	\$ -	\$ -	\$ -	\$ (48,062)	\$ -
DISCLOSURE OF OTHER GRANTS REPORTED ON LINE 402						
Source:						
	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Total other grants	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
DISCLOSURE OF OTHER REVENUE REPORTED ON LINE 406						
Itemization of other revenue:						
Casa Buena administration	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Compulsive gambling						
Housing - Stargate Village & HUD 125						
Miscellaneous						
Pharmacy rebates						
Rehabilitative Services Administration						
St. Lukes grant						
Total other revenue	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
UNRELATED BUSINESS ACTIVITIES REPORTED ON LINE 407						
Source of revenue:						
	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Total unrelated business activities	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
DISCLOSURE OF OTHER EXPENSES REPORTED ON LINE 511						
Itemization of the items reported on Line 511						
HB2003 Children and Adult services	\$ -	\$ -		\$ -	\$ -	\$ -
PASARR						\$ 58,512
Total other expenses	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 58,512
DISCLOSURE OF NON-ADHS SERVICE EXPENSES						
Stargate Village service value	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Total Non-ADHS Service Expenses	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
DISCLOSURE OF NON-ADHS ADMINISTRATIVE EXPENSES						
Casa Buena	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Pharmacy benefit management						
Rehabilitative Services Administration						
St. Lukes grant						
Total Non-ADHS Administrative Expenses	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
PRIOR PERIOD ADJUSTMENTS						
META reclassification due to loss of JCAHO certification						

STATEMENT OF CASH FLOWS
Year-to-date for period ended June 30, 2003
(Unaudited)

CASH FLOWS FROM OPERATING ACTIVITIES:

1. Net earnings	\$	16,519,157
2. Adjustments to reconcile earnings to cash provided / (used) by operating activities		
A. Depreciation		691,230
B. Changes in operating assests and liabilities		
i. (Increases) / decreases in assets		
Current investments		-
Receivables		5,245,430
Inventory and prepaid expenses		(585,156)
Deposits		(164,361)
Other		(207,912)
ii. Increases / (decreases) in liabilities		
IBNR		(1,729,899)
RBUc		(20,869,857)
Accounts payable to providers		(2,079,227)
Trade accounts payable		623,646
Accrued salaries and benefits		566,213
Other current liabilities		(1,017,040)
Other noncurrent liabilities		271,047
Net cash used by operating activities		(2,736,729)

CASH FLOWS FROM INVESTING ACTIVITIES:

Proceeds from sale of property and equipment	-
Purchases of property and equipment	(1,622,748)
Proceeds from sale of investments	26,896,442
Purchases of investments	-
Net cash provided by investing activities	25,273,693

CASH FLOWS FROM FINANCING ACTIVITIES:

Acquisition of debt	-
Payment of lease obligations	-
Payment of other debts	(14,619,998)
Net cash used by financing activities	(14,619,998)

NET INCREASE IN CASH	7,916,966
BEGINNING CASH BALANCE	24,394,096
ENDING CASH BALANCE	\$ 32,311,063

STATEMENT OF CASH FLOWS
Year-to-date for period ended June 30, 2003
Schedule A - Disclosures
(Unaudited)

Describe:

1. Sources of cash received for other grants
 - Compulsive Gambling Grant
 - A grant to treat compulsive gambling disorders
 - Rehabilitative Services Administration
 - A contract to assist SMI persons in learning life and work skills
 - Housing - Stargate Village
 - A reimbursement of certain case management expense
2. Underlying transactions for acquisition of debt
3. Underlying transactions for retirement of debt
 - Payment of dividends to parent company.
4. Supplemental data for noncash investing and financing activities, gifts, etc.

**Notes to Quarterly Financial Statements for the quarter ended June 30, 2003
(Unaudited)**

I. HiFA SMI and HiFA GMH

The expense for these fund sources increased significantly over the prior two reporting periods due to a couple of factors. When the funds were initially awarded and distributed, it was mistakenly believed that these adult fund sources would be reconciled with Title XIX adults. The funds were distributed to providers under the associated Title XIX contracts and the reported expenses were a subtraction from the Title XIX expenses based on available rosters and claims data. The reported expenses reflected the limited information available at the time. Also, until mid-June, the HiFA fund source appeared to be designated for elimination, a consensus that seemed to be shared by State personnel.

Given that the HiFA fund sources is continuing, more claims data is available, and the ADHS/DBHS has provided notification that T21 adults will be reconciled separately from Title XIX adults; contracts have been amended to reflect the HiFA funding sources and have been reconciled separately from Title XIX adults. Expenses have been accrued based on those contracts, and payments have been made or payables recorded accordingly. Going forward, T21 HiFA will be accounted in a manner consistent with all other block purchases; block purchases are recognized as expense on a monthly basis, according to contracted amounts, and encounters are reconciled according to encounter submission policies.

STATEMENT OF FINANCIAL POSITION FLUCTUATION ANALYSIS

Explanation of Account Level Variances of Ten Percent or More

(Unaudited)

	Jun-02	Sep-02	Dec-02	Mar-03	Jun-03	Description of change
ASSETS						
CURRENT ASSETS						
101. Cash	24,394,096	28,572,269	23,187,405	28,445,514	32,311,059	13.6% Payments to providers; the net change in cash and short-term investments is offset in provider A/P
102. Current Investments	26,896,442	-	-	-	-	
103. Accounts receivable, net	15,279,259	12,641,970	15,936,873	14,159,425	10,033,829	-29.1% Collections of ADHS and Non-ADHS receivables
104. Notes receivable, current maturities	-	-	-	-	-	
105. Prepaid expenses	309,632	1,934,533	1,844,632	1,766,328	894,788	-49.3% Provider prepayments were relieved; normal prepaids remain
106. Other current assets	238,560	238,560	238,560	238,560	446,472	87.2%
107. Total current assets	68,363,399	43,387,332	41,207,470	44,609,828	43,686,148	
NONCURRENT ASSETS						
108. Land	-	-	-	-	-	
109. Buildings	-	-	-	-	-	
110. Leasehold improvements	164,455	170,125	174,845	192,477	208,154	
111. Furniture and equipment	5,048,494	5,503,609	6,292,905	6,409,757	6,816,689	
112. Vehicles	-	-	-	-	-	
113. Total property and equipment	5,212,951	5,673,735	6,467,750	6,602,234	7,024,843	
114. Less: accumulated depreciation	(4,007,326)	(4,209,451)	(4,440,498)	(4,623,551)	(4,887,703)	
115. Net property and equipment	1,205,624	1,464,284	2,027,252	1,978,682	2,137,140	
116. Notes receivable, less current maturities	-	-	-	-	-	
117. Performance bond	-	-	-	5,802,429	5,802,429	
118. Long-term investments	-	-	-	-	-	
119. Deposits	336,396	435,847	420,542	457,409	500,757	
120. Other noncurrent assets	227,786	227,786	227,786	227,786	-	-100.0%
121. Total noncurrent assets	1,542,020	2,127,917	2,675,580	8,466,307	8,440,326	
122. Total assets	69,905,420	45,515,249	43,883,050	53,076,134	52,126,474	
LIABILITIES AND EQUITY						
CURRENT LIABILITIES						
201. Incurred but not reported claims	4,300,938	2,250,672	3,705,920	2,813,025	2,571,039	
202. Reported but unpaid claims	29,038,274	11,324,522	6,537,837	7,604,821	8,168,417	
203. Recoupment/sanction liability	215,596	-	-	444,039	-	-100.0% Reclass withhold from providers based on ADHS/DBHS request
204. Other amounts payable to providers	3,270,437	29,402	4,289	8,578	1,406,806	16300.3% Withhold from providers due to encounter submissions
205. Trade accounts payable	1,267,440	1,007,119	1,696,502	1,932,816	1,891,086	
206. Accrued salaries and benefits	3,514,673	4,461,773	3,763,904	5,024,959	4,080,886	-18.5% Normal payroll activity based on cycle timing variances
207. Long-term debt, current maturities	-	-	-	-	-	
208. Deferred revenue (disclosed on Schedule A)	4,853,208	2,388,679	5,511,285	4,853,526	3,862,951	-20.4% Increased HB2003 program utilizations and reclass HB2003 SMI funds to Non-Title XIX SMI
209. Risk pool payable	-	-	-	-	-	
210. Other current liabilities	8,127,215	9,176,452	10,036,999	11,286,753	8,100,433	-28.2%
211. Total current liabilities	56,120,840	30,638,618	31,256,735	33,968,517	30,081,618	-11.4%
NONCURRENT LIABILITIES						
212. Long-term debt, less current maturities	-	-	-	-	-	
213. Loss contingencies (disclosed on Schedule A)	-	-	-	-	-	
214. Other noncurrent liabilities	-	-	-	-	43,261	
215. Total noncurrent liabilities	-	-	-	-	-	
216. Total liabilities	56,120,840	30,638,618	31,256,735	33,968,517	30,081,618	-11.4%
EQUITY						
217.a Initial capital	10,000,000	10,000,000	10,000,000	10,000,000	10,000,000	
217.b Additional capital	-	-	-	5,802,429	5,802,429	
217.c Current net income	16,414,474	3,996,618	6,946,302	11,625,176	16,519,153	42.1% Normal equity activity based on Statement of Earnings
217.d Retained earnings	3,385,537	4,300,011	4,300,011	4,300,011	4,300,011	
217.e Dividends Declared	(15,500,000)	(3,419,998)	(8,619,998)	(12,619,998)	(14,619,998)	15.8% Normal dividend activity based on net earnings and capitalization requirements
217. Total equity	13,784,580	14,876,631	12,626,315	19,107,618	22,001,595	15.1%
218. Total liabilities and equity	\$ 69,905,420	\$ 45,515,249	\$ 43,883,050	\$ 53,076,134	\$ 52,083,213	

LAG REPORT FOR TITLE XIX

As of June 30, 2003

(Unaudited)

Quarter of Payment	Quarter of Service							
	Current	1st Prior	2nd Prior	3rd Prior	4th Prior	5th prior	6th Prior	Total
Current	51,531,232	2,403,717	705,178	198,413	-	-	-	54,838,540
1st Prior		50,967,462	4,284,521	1,254,701	86,043	16,451	-	56,609,178
2nd Prior			47,284,643	7,584,833	418,406	23,595	-	55,311,477
3rd Prior				41,067,023	26,305,884	436,987	-	67,809,893
4th Prior					43,606,208	6,808,623	2,745,618	53,160,449
5th Prior						26,480,072	6,401,263	32,881,335
6th Prior							27,461,975	27,461,975
Totals	51,531,232	53,371,179	52,274,342	50,104,970	70,416,541	33,765,728	36,608,856	348,072,847
Title XIX	51,531,232	53,371,179	52,274,342	50,104,970	70,416,541	33,765,728	36,608,856	348,072,847
Title XXI	-	-	-	-	-	-	-	-
Non-Title XIX/XXI	-	-	-	-	-	-	-	-
Expense Reported	56,571,257	55,836,972	52,640,848	50,131,599	70,416,541	33,765,728	36,608,856	355,971,801
Title XIX	56,571,257	55,836,972	52,640,848	50,131,599	70,416,541	33,765,728	36,608,856	355,971,801
Title XXI	-	-	-	-	-	-	-	-
Non-Title XIX/XXI	-	-	-	-	-	-	-	-
Remaining Liability	5,040,025	2,465,793	366,506	26,629	-	-	-	7,898,954
Title XIX	5,040,025	2,465,793	366,506	26,629	-	-	-	7,898,954
Title XXI	-	-	-	-	-	-	-	-
Non-Title XIX/XXI	-	-	-	-	-	-	-	-

LAG REPORT FOR NON-TITLE XIX/XXI

As of June 30, 2003

(Unaudited)

Quarter of Payment	Quarter of Service							Total
	Current	1st Prior	2nd Prior	3rd Prior	4th Prior	5th prior	6th Prior	
Current	22,005,312	2,939,654	334,558	223,311	-	-	-	25,502,835
1st Prior		25,306,068	1,845,739	514,254	59,127	3,458	-	27,728,646
2nd Prior			24,669,401	1,919,995	95,160	18,252	-	26,702,809
3rd Prior				25,398,708	3,773,403	252,094	-	29,424,205
4th Prior					2,297,039	3,367,454	1,452,301	7,116,794
5th Prior						27,652,353	3,559,340	31,211,693
6th Prior							23,222,240	23,222,240
Totals	22,005,312	28,245,722	26,849,698	28,056,267	6,224,730	31,293,611	28,233,881	170,909,222
Title XIX	-	-	-	-	-	-	-	-
Title XXI	-	-	-	-	-	-	-	-
Non-Title XIX/XXI	22,005,312	28,245,722	26,849,698	28,056,267	6,224,730	31,293,611	28,233,881	170,909,222
Expense Reported	23,613,072	29,136,287	26,989,948	28,080,860	6,224,730	31,293,611	28,233,881	173,572,389
Title XIX	-	-	-	-	-	-	-	-
Title XXI	-	-	-	-	-	-	-	-
Non-Title XIX/XXI	23,613,072	29,136,287	26,989,948	28,080,860	6,224,730	31,293,611	28,233,881	173,572,389
Remaining Liability	1,607,760	890,565	140,250	24,593	-	-	-	2,663,167
Title XIX	-	-	-	-	-	-	-	-
Title XXI	-	-	-	-	-	-	-	-
Non-Title XIX/XXI	1,607,760	890,565	140,250	24,593	-	-	-	2,663,167

LAG REPORT FOR TITLE XXI

As of June 30, 2003

(Unaudited)

Quarter of Payment	Quarter of Service							Total
	Current	1st Prior	2nd Prior	3rd Prior	4th Prior	5th prior	6th Prior	
Current	2,091,999	55,142	39,751	3,259	-	-	-	2,190,151
1st Prior		591,923	78,194	15,478	11,466	-	-	697,061
2nd Prior			575,255	58,613	-	-	-	633,868
3rd Prior				609,020	82,505	-	-	691,525
4th Prior					215,887	12,538	-	228,425
5th Prior						644,329	110,326	754,655
6th Prior							612,212	612,212
Totals	2,091,999	647,065	693,200	686,369	309,858	656,867	722,538	5,807,896
Title XIX	-	-	-	-	-	-	-	-
Title XXI	2,091,999	647,065	693,200	686,369	309,858	656,867	722,538	5,807,896
Non-Title XIX/XXI	-	-	-	-	-	-	-	-
Expense Reported	2,360,878	684,043	709,367	686,369	309,858	656,867	722,538	6,129,920
Title XIX	-	-	-	-	-	-	-	-
Title XXI	2,360,878	684,043	709,367	686,369	309,858	656,867	722,538	6,129,920
Non-Title XIX/XXI	-	-	-	-	-	-	-	-
Remaining Liability	268,879	36,978	16,167	-	-	-	-	322,024
Title XIX	-	-	-	-	-	-	-	-
Title XXI	268,879	36,978	16,167	-	-	-	-	322,024
Non-Title XIX/XXI	-	-	-	-	-	-	-	-

LAG REPORT SUMMARY

As of June 30, 2003

(Unaudited)

Quarter of Payment	Quarter of Service							Total
	Current	1st Prior	2nd Prior	3rd Prior	4th Prior	5th prior	6th Prior	
Current	75,628,543	5,398,513	1,079,487	424,983	-	-	-	82,531,525
1st Prior		76,865,453	6,208,454	1,784,433	156,636	19,909	-	85,034,885
2nd Prior			72,529,299	9,563,441	513,566	41,848	-	82,648,153
3rd Prior				67,074,750	30,161,792	689,080	-	97,925,623
4th Prior					46,119,134	10,188,615	4,197,919	60,505,669
5th Prior						54,776,754	10,070,929	64,847,683
6th Prior							51,296,427	51,296,427
Totals	75,628,543	82,263,966	79,817,240	78,847,607	76,951,129	65,716,206	65,565,275	524,789,966
Title XIX	51,531,232	53,371,179	52,274,342	50,104,970	70,416,541	33,765,728	36,608,856	348,072,847
Title XXI	2,091,999	647,065	693,200	686,369	309,858	656,867	722,538	5,807,896
Non-Title XIX/XXI	22,005,312	28,245,722	26,849,698	28,056,267	6,224,730	31,293,611	28,233,881	170,909,222
Expense Reported	82,545,207	85,657,302	80,340,163	78,898,828	76,951,129	65,716,206	65,565,275	535,674,110
Title XIX	56,571,257	55,836,972	52,640,848	50,131,599	70,416,541	33,765,728	36,608,856	355,971,801
Title XXI	2,360,878	684,043	709,367	686,369	309,858	656,867	722,538	6,129,920
Non-Title XIX/XXI	23,613,072	29,136,287	26,989,948	28,080,860	6,224,730	31,293,611	28,233,881	173,572,389
Remaining Liability	6,916,664	3,393,336	522,923	51,222	-	-	-	10,884,144
Title XIX	5,040,025	2,465,793	366,506	26,629	-	-	-	7,898,954
Title XXI	268,879	36,978	16,167	-	-	-	-	322,024
Non-Title XIX/XXI	1,607,760	890,565	140,250	24,593	-	-	-	2,663,167

b. Financial Statements and Minimum Capitalization Requirements

FHC HEALTH SYSTEMS, INC.

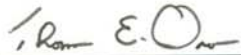
CORPORATE AUTHORIZATION

Effective as of November 1, 2003

In response to the Arizona Department of Health Services contract requirements regarding enhanced net worth requirements of ValueOptions, Inc., FHC Health Systems, Inc., the ultimate parent company of ValueOptions, Inc., is hereby authorized to fund such enhanced net worth requirements from its general corporate operating funds and profits.

WITNESS the following signature effective as of the day and year first written above.

FHC HEALTH SYSTEMS, INC.



Thomas E. Oram, Treasurer

ARIZONA DIVISION OF VALUEOPTIONS, INC.

**FINANCIAL STATEMENTS AND
SUPPLEMENTAL SCHEDULES**

JUNE 30, 2003 AND 2002

CONTENTS

	Page
Report of Independent Auditors	1
Financial Statements:	
Balance Sheets	2
Statements of Operations	3
Statements of Changes in Divisional Equity	4
Statements of Cash Flows	5
Notes to Financial Statements	6
Supplemental Schedules:	
Schedule of Operations by Funding Source	16
Schedule of Operations by Funding Source - Schedule A Disclosures	18



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Report of Independent Auditors

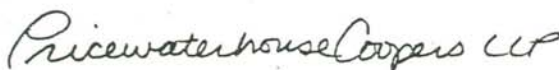
Board of Directors
Arizona Division of ValueOptions, Inc.

In our opinion, the accompanying balance sheets and the related statements of operations, of changes in divisional equity and of cash flows present fairly, in all material respects, the financial position of the Arizona Division of ValueOptions, Inc. (the "Division") at June 30, 2003 and 2002, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Division's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying supplemental schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

As described in Note 1, the Division's principal source of revenue is from its contract with the State of Arizona, which has currently been renewed through June 30, 2004. If the contract is not renewed beyond June 30, 2004, the Division's future operations could be adversely affected.

This report is intended solely for the information and use of the Arizona Department of Health Services – Division of Behavioral Health Services, the State of Arizona and management of the Division, and is not intended to be and should not be used by anyone other than these specified parties.



August 31, 2003

ARIZONA DIVISION OF VALUEOPTIONS, INC.
BALANCE SHEETS

June 30, 2003 and 2002

ASSETS	2003	2002
Cash and cash equivalents	\$ 28,448,108	\$ 19,540,888
Restricted cash	3,862,951	4,853,208
Short-term investments	5,802,429	26,896,442
Accounts receivable	10,033,829	15,279,259
Prepaid expenses and other assets	894,788	309,632
Deferred income tax asset	446,472	238,560
Total current assets	49,488,577	67,117,989
Deferred income tax asset, long-term	-	227,786
Property and equipment, net	2,137,140	1,205,622
Deposits	500,757	336,396
Total assets	\$ 52,126,474	\$ 68,887,793
LIABILITIES AND DIVISIONAL EQUITY		
Accounts payable and accrued expenses	6,070,015	8,913,757
Payable to providers	12,133,397	33,554,808
Deferred contract revenue	3,862,951	4,853,208
Income taxes payable to FHC Health Systems, Inc.	2,077,346	2,942,529
Due to affiliated companies	5,937,909	4,323,480
Total current liabilities	30,081,618	54,587,782
Deferred income tax liability, long-term	43,261	-
Divisional equity:		
Investment by ValueOptions, Inc.	15,802,429	10,000,000
Retained earnings	6,199,166	4,300,011
	22,001,595	14,300,011
Total liabilities and divisional equity	\$ 52,126,474	\$ 68,887,793

The accompanying notes are an integral part of these financial statements.

ARIZONA DIVISION OF VALUEOPTIONS, INC.
STATEMENTS OF OPERATIONS
for the years ended June 30, 2003 and 2002

	2003	2002
Revenues:		
Contract revenues	\$ 386,865,512	\$ 316,362,081
Grants and other	<u>4,869,355</u>	<u>4,786,511</u>
	391,734,867	321,148,592
Expenses:		
Program services	332,775,952	268,886,786
General and administrative	<u>31,506,692</u>	<u>25,037,990</u>
	<u>364,282,644</u>	<u>293,924,776</u>
Net earnings before income taxes	27,452,223	27,223,816
Income tax provision	<u>10,933,070</u>	<u>10,809,340</u>
Net earnings	<u>\$ 16,519,153</u>	<u>\$ 16,414,476</u>

The accompanying notes are an integral part of these financial statements.

ARIZONA DIVISION OF VALUEOPTIONS, INC.
STATEMENTS OF CHANGES IN DIVISIONAL EQUITY
for the years ended June 30, 2003 and 2002

	Investment by ValueOptions, Inc.	Retained Earnings	Total
Balance, June 30, 2001	\$ 10,000,000	\$ 3,385,535	\$ 13,385,535
Net earnings for the year ended June 30, 2002	-	16,414,476	16,414,476
Distribution to ValueOptions, Inc.	-	(15,500,000)	(15,500,000)
Balance, June 30, 2002	10,000,000	4,300,011	14,300,011
Net earnings for the year ended June 30, 2003	-	16,519,153	16,519,153
Investment by ValueOptions, Inc.	5,802,429	-	5,802,429
Distribution to ValueOptions, Inc.	-	(14,619,998)	(14,619,998)
Balance, June 30, 2003	\$ 15,802,429	\$ 6,199,166	\$ 22,001,595

The accompanying notes are an integral part of these financial statements.

ARIZONA DIVISION OF VALUEOPTIONS, INC.
STATEMENTS OF CASH FLOWS

for the years ended June 30, 2003 and 2002

	2003	2002
Operating activities:		
Net earnings	\$ 16,519,153	\$ 16,414,476
Adjustments to reconcile net earnings to net cash provided by (used in) operating activities:		
Depreciation	691,229	559,061
Deferred income taxes	63,135	200,957
Cash provided by (used in) changes in:		
Restricted cash	990,257	3,488,164
Accounts receivable	5,245,430	(9,722,487)
Prepaid expenses and other assets	(585,156)	281,484
Payable to providers	(21,421,411)	16,095,427
Accounts payable and accrued expenses	(2,843,742)	5,009,677
Deferred contract revenue	(990,257)	(3,488,164)
Income taxes payable to FHC Health Systems, Inc.	(865,183)	216,337
Due to affiliated companies	1,614,429	(1,127,575)
Net cash provided by (used in) operating activities	(1,582,116)	27,927,357
Investing activities:		
Purchases of property and equipment	(1,622,747)	(383,125)
Increase in deposits	(164,361)	(55,035)
Maturities of short-term investments	21,094,013	-
Purchase of short-term investments	-	(26,896,442)
Net cash provided by (used in) investing activities	19,306,905	(27,334,602)
Financing activities:		
Investment by ValueOptions, Inc.	5,802,429	-
Distribution to ValueOptions, Inc.	(14,619,998)	(15,500,000)
Net cash used in financing activities	(8,817,569)	(15,500,000)
Increase (decrease) in cash and cash equivalents	8,907,220	(14,907,245)
Cash and cash equivalents at beginning of period	19,540,888	34,448,133
Cash and cash equivalents at end of period	\$ 28,448,108	\$ 19,540,888
Supplemental disclosure:		
Transfer of equipment from affiliate, net of accumulated depreciation of \$193,161 in 2003 and \$370,854 in 2002	\$ 160,668	\$ 78,167

The accompanying notes are an integral part of these financial statements.

NOTES TO FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies:

Description of Business

The Arizona Division of ValueOptions, Inc. (the "Division"), is a division of ValueOptions, Inc. ("ValueOptions"), a Virginia corporation. ValueOptions is a wholly-owned subsidiary of FHC Health Systems, Inc. ("FHC"), also a Virginia corporation.

The Division provides managed behavioral healthcare services to Maricopa County Medicaid ("Title XIX"), Subvention ("Non-Title XIX"), and KidsCare ("Title XXI") beneficiaries under a contract with the Arizona Department of Health Services – Division of Behavioral Health Services ("ADHS – DBHS") (the "Contract"). The Division also provides managed behavioral healthcare services under the Contract to qualifying adults and children in Maricopa County under special funding from the House Bill 2003 tobacco litigation settlement ("HB2003").

The original terms of the Contract commenced September 19, 1998 and continued through June 30, 2001 with two additional one-year options for renewal, both of which were executed. The contractual arrangement has been extended through June 30, 2004 under a separate one-year contract. The ADHS-DBHS is issuing a request for proposal related to the Contract for periods commencing July 1, 2004. The Division intends to submit a bid for consideration in response to this request.

Effective January 1, 2003, the Division became responsible for the provision of managed behavioral healthcare services to capitated adults (53,186 as of the year ended June 30, 2003) under a special Healthcare Insurance Flexibility Accounting ("HIFA") waiver funded from excess KidsCare funding.

The accompanying financial statements include the revenues, expenses, assets and liabilities of ValueOptions, Inc., that result from or are dedicated solely to providing services under the Contract. The Division is not a separate legal entity. FHC and ValueOptions report on a calendar year basis. The Division reports its financial position and the results of its operations and its cash flows as of and for the twelve months ended June 30 to coincide with the fiscal year of the State of Arizona and the terms of the Contract.

Risks and Uncertainties

The Division's business could be impacted by ongoing federal and state legislation in the area of healthcare reform. Changes in these areas could adversely affect the Division's operations in the future. Substantially all of the revenues of the Division are generated through the Contract. The Contract has not currently been renewed beyond June 30, 2004. If the Contract is not renewed beyond June 30, 2004, the Division's future operations would be materially adversely affected.

Estimation Process

The preparation of financial statements requires management to make estimates and assumptions that affect amounts reported in the financial statements and accompanying notes. Such estimates and assumptions could change in the future as more information becomes known, which could impact the amounts reported and disclosed herein.

NOTES TO FINANCIAL STATEMENTS, Continued

1. Summary of Significant Accounting Policies, continued:

Payable to Providers

The Division compensates providers for authorized behavioral health care and substance abuse services to covered beneficiaries. The Division uses a variety of methods to estimate the amount payable to providers including authorizations for services to be provided, payments to be made under contract arrangements currently in force, and communication with significant providers to ascertain the level of care being provided to beneficiaries for which a claim has not yet been submitted.

The liabilities for payable to providers include estimates of amounts due on reported claims and claims that have been incurred but were not reported as of June 30, 2003 and 2002. Such liabilities represent the Division's best estimate of amounts that are reasonable and adequate to discharge the Division's obligations for claims incurred but unpaid as of June 30, 2003 and 2002. Such estimates are however subject to a significant degree of inherent variability. Estimates are continually reviewed and adjusted as necessary as experience develops and new information becomes known; such adjustments are included in current operations. For the years ended June 30, 2003 and 2002, program services expense decreased approximately \$192,000 and \$4,200,000 million related to such revisions. Although the Division believes that the estimates of liabilities for the payable to providers at June 30, 2003 are reasonable in the circumstances, it is possible that the Division's actual incurred expenses will not conform to the assumptions inherent in the determination of the payable to providers; accordingly, the ultimate amounts paid may vary from the estimates included in the Division's financial statements. Such revisions will be recorded when paid.

Contract Revenue

The Division receives substantially all of its revenue from the Contract with the ADHS-DBHS. Contract revenues include funds for behavioral healthcare services and prevention programs for youth and seriously mentally ill ("SMI") adult and substance abuse populations under four major types of revenue sources: Title XIX, Title XXI, Non-Title XIX, and HB2003. Contract revenue is recognized in the period for which the Division is obligated to provide covered services. Deferred revenue relates to grant amounts received in the current year that cannot be recognized until certain terms are met. Contract revenue is also limited by State mandate to a maximum profit percentage in each of the funding sources. Contract revenue that cannot be recognized due to this mandate is reported as deferred revenue in the accompanying balance sheets. This revenue is recognized in the subsequent year or remitted back to the ADHS-DBHS.

Title XIX revenue – The Division's contract with the ADHS-DBHS requires the Division to provide behavioral healthcare services to all eligible enrollees within its geographic service area. Under this agreement, the Division receives monthly capitation payments from the ADHS-DBHS based on a capitated rate and the number of Title XIX Arizona Health Care Cost Containment System ("AHCCCS") enrollees eligible for covered services during that month.

NOTES TO FINANCIAL STATEMENTS, Continued

1. Summary of Significant Accounting Policies, continued:

Title XXI revenue – The Division's contract with the ADHS-DBHS requires the Division to provide behavioral healthcare services to all eligible enrollees within its geographic service area. Under this agreement, the Division receives monthly capitation payments from the ADHS-DBHS based on a capitated rate and the number of Title XXI enrollees eligible for covered services during that month.

Non-Title XIX revenue – The Division's contract with the ADHS-DBHS provides for payment to the Division at a monthly rate equal to one-twelfth of specified annual contract maximums under the ADHS-DBHS Non-Title XIX programs. These programs provide behavioral healthcare services to lower income uninsured or underinsured individuals not eligible for behavioral healthcare coverage under Title XIX or Medicare. Non-Title XIX programs are funded through a combination of federal behavioral healthcare block grant funds, State of Arizona funds and Maricopa County funds administered by the ADHS-DBHS.

HB2003 Revenue – The Division's contract with the ADHS-DBHS requires the Division to provide behavioral healthcare services under special funding from the tobacco litigation settlement. Revenue is recognized using a percentage of completion method based on program milestones as prescribed by the ADHS-DBHS. These programs serve adults and children with serious mental illness and are to be used to provide community housing, vocational rehabilitation and other recovery support services designed to assist beneficiaries in achieving a high level of self-sufficiency and attain their desired goals. Programs related to these funds commenced January 1, 2001 and will remain in operation through June 30, 2004. All funds are required to be expended by January 1, 2005. Revenues under the HB2003 program is included in grants and other revenue in the accompanying statements of operations for the years ended June 30, 2003 and 2002.

Grants and other revenue – Under the contract with the ADHS-DBHS the Division is required to provide services under certain grants for special populations. Payment is made by the ADHS-DBHS based on expenditure reports submitted by the Division.

Additionally, the Division includes reimbursements received under pharmacy contracts with suppliers in Grant and other revenue in the accompanying statements of operations. These reimbursements are not included in the calculations of profit limitations.

NOTES TO FINANCIAL STATEMENTS, Continued

1. Summary of Significant Accounting Policies, continued:

Program Services Expense

The Division provides medical services and pharmacy benefits to covered beneficiaries through contractual agreements with third party providers (63.3% and 65.7% of total program service expense for the years ended June 30, 2003 and 2002, respectively), through affiliated providers for services coordination and clinical services (21.7% and 19.5%), and through affiliated pharmacies and third party pharmacy networks (15.0% and 14.8%).

For years ended June 30, 2001 and prior, contractual agreements with third party providers were primarily fee-for-service arrangements and program expenses were accrued as services were provided using authorizations and medical loss ratios. During the year ended June 30, 2002, the Division transitioned most of its third party provider contracts to block purchase arrangements whereby the Division provides a fixed fee to the providers to cover an agreed-upon capacity of services available to covered beneficiaries. Program services expense is recorded based on the contractual arrangements, and the Division accrues amounts payable to providers for unpaid commitments for which the services have been provided.

For the year ended June 30, 2002, the terms of the Contract were modified to include additional program services and beneficiaries. Due to these modifications, and the transition to primarily block purchase arrangements with third party providers from fee-for-service, the Division adjusted the block purchase agreements with the providers at the end of the year to reflect its estimate of actual utilization service experience for the year. Therefore, during fiscal 2002, the Division accounted for program services expenses by each funding source based on its estimate of actual utilization service experience for the year for the block purchase arrangements, and by authorizations and medical loss ratios for fee-for-service arrangements.

For the year ended June 30, 2003, the covered programs and beneficiaries under the Contract have stabilized and the block purchase contracts were negotiated to reflect the approved services. Further, such contracts require that the providers manage utilization of services to the contracted amounts. Therefore, during fiscal 2003, the Division accounted for program services expenses by each funding source based on the contracts with the providers as well as authorizations and medical loss ratios for fee-for-service arrangements.

Short-term Investments

Short-term investments consist primarily of commercial paper, carried at cost, which approximates fair value, with maturities ranging from 3 months to 1 year.

Cash and Cash Equivalents

The Division considers all highly liquid investments with maturities of three months or less when purchased to be cash equivalents. Cash equivalents consist primarily of money market funds and short-term commercial paper. Restricted cash and cash equivalents consist primarily of cash deposits principally restricted due to profit limitations or terms of the contract that have not been met as of June 30 of each respective year.

NOTES TO FINANCIAL STATEMENTS, Continued

1. Summary of Significant Accounting Policies, continued:

Premium Deficiencies

The Division records a premium deficiency reserve when expected claims payments or incurred costs, claims adjustment expenses and administration costs exceed the premiums to be collected for the remainder of a contract period. Anticipated investment income is not used as a factor in the premium deficiency reserve calculation. No such reserve is required at June 30, 2003 or 2002.

Property and Equipment

Furniture and equipment are stated at cost. The Division provides for depreciation using the straight-line method over the estimated useful lives of the related assets as follows:

Computers	3 years
Furniture and fixtures	10 years
Major movables	10 years
Fixed equipment	4 years
Leasehold improvements	lesser of remaining term of lease or estimated useful life

Income Taxes

The Division is allocated its proportionate share of the FHC tax expense. Separate or unitary income tax returns are filed in the states in which FHC conducts business, including the State of Arizona, which is filed on a unitary basis. Unitary tax returns include affiliated companies whose functions are integrated and interdependent at the basic operational level and are bonded through direct or indirect ownership control. The provision for income taxes is allocated to the Division at the statutory rate, based on the Division's income, after giving effect to permanent differences.

Deferred income tax assets and liabilities relate to temporary differences between the recorded basis of assets and liabilities for financial reporting and income tax purposes. Such differences result primarily from prepaid rent, accrued vacation, accrued liabilities, payable to providers and depreciation.

The allocation of income tax expense is not included in the administrative expenses of the Division that are restricted by Contract limitations to a specified percentage of Contract revenues.

NOTES TO FINANCIAL STATEMENTS, Continued

2. Property and Equipment:

Property and equipment consist of the following at June 30:

	2003	2002
Furniture and equipment	\$ 6,792,289	\$ 5,048,494
Leasehold improvements	137,570	93,871
Other	94,984	70,584
	<u>7,024,843</u>	<u>5,212,949</u>
Accumulated depreciation	<u>(4,887,703)</u>	<u>(4,007,327)</u>
Property and equipment, net	<u>\$ 2,137,140</u>	<u>\$ 1,205,622</u>

3. Retirement Plan:

The Division participates in the FHC 401(k) defined contribution employee benefit plan. The Division made contributions to the plan of approximately \$571,600 and \$502,000 for the years ended June 30, 2003 and 2002, respectively.

4. Income Taxes:

ValueOptions files a consolidated federal income tax return with FHC. The provision for income taxes is computed for each entity and entity division in the consolidated group at the statutory rate based on each entity's income after giving effect to permanent differences. The provision for income taxes consists of the following:

	2003	2002
Currently payable:		
Federal	\$ 8,951,343	\$ 8,750,531
State	1,918,592	1,857,852
	<u>10,869,935</u>	<u>10,608,383</u>
Deferred income taxes:		
Federal	51,880	150,491
State	11,255	50,466
	<u>63,135</u>	<u>200,957</u>
	<u>\$ 10,933,070</u>	<u>\$ 10,809,340</u>

NOTES TO FINANCIAL STATEMENTS, Continued

4. Income Taxes, continued:

Significant components of net deferred tax assets are as follows:

	2003	2002
Deferred tax assets:		
Depreciation	\$ -	\$ 227,786
Accrued vacation	724,555	539,740
Deferred tax assets	<u>724,555</u>	<u>767,526</u>
Deferred tax liabilities:		
Prepaid insurance & other	(228,489)	(182,738)
Depreciation	(43,261)	-
Accrued benefits	(49,594)	(118,442)
Deferred tax liabilities	<u>(321,344)</u>	<u>(301,180)</u>
Net deferred tax asset	<u>\$ 403,211</u>	<u>\$ 466,346</u>

The net deferred tax assets are classified in the accompanying balance sheets in the following manner:

	2003	2002
Current assets	\$ 446,472	\$ 238,560
Noncurrent assets (liabilities)	(43,261)	227,786
	<u>\$ 403,211</u>	<u>\$ 466,346</u>

Income tax expense reconciled to the tax computed at statutory rates is as follows:

	2003	2002
Statutory federal income tax rate	35 %	35 %
State income taxes, net of federal benefit	5	5
	<u>40 %</u>	<u>40 %</u>

5. Related-Party Transactions:

Under an agreement entered into on July 1, 2001 with First Hospital Laboratories, Inc. ("First Lab"), an affiliated company, the Division purchases laboratory services from First Lab to support the Division's direct provision of services coordination and clinical services. Included in program services expense is approximately \$595,556 and \$398,100 related to the agreement for the years ended June 30, 2003 and 2002, respectively.

NOTES TO FINANCIAL STATEMENTS, Continued

5. Related Party Transactions, continued:

Under an agreement entered into on January 15, 2001 with Rx Innovation, LLC ("RxI"), an affiliated company, the Division purchases pharmaceuticals from RxI to support the Division's direct provision of services coordination and clinical services. Included in program services expense is approximately \$199,675 and \$2,924,255 related to the agreement for the years ended June 30, 2003 and 2002, respectively.

Under an agreement entered into on September 1, 2000 with ABSolute Integrated Solutions ("AIS"), an affiliated company, the Division licenses a software system, ABSolute, for use at the Division's sites to monitor encounter claims for case management services. Included in program services expense is approximately \$1,375,000 and \$1,500,000 related to the agreement for the years ended June 30, 2003 and 2002, respectively.

ValueOptions provides administrative services for the Division including MIS functions, accounts payable and payroll processing. Included in general and administrative expenses is an allocation of the costs of these services from ValueOptions of approximately \$18,297,000 and \$14,637,000 for the years ended June 30, 2003 and 2002, respectively. The amount of these costs allocated is limited by the Contract with the remainder being absorbed by ValueOptions.

Amounts due to affiliated companies at June 30, 2003 and 2002 primarily represent payroll and trade accounts payable, which are payable to ValueOptions. Amounts due to affiliated companies are non-interest bearing.

Under the provisions of the Contract with ADHS-DBHS and by State mandate, dividends and other distributions may be paid only to the extent of allowable profit in each of the funding sources as defined. The Division distributed approximately \$14,620,000 and \$15,500,000 for the years ended June 30, 2003 and 2002, respectively, which did not exceed the profit maximum as defined.

6. Commitments and Contingencies:

Leases

The Division leases office space in Phoenix, Arizona for its divisional headquarters. Under the terms of the lease, which expires in September 2004, rent charges may be increased for increases in real estate taxes and operating expenses. Rent expense for the years ended June 30, 2003 and 2002 was approximately \$4,969,000 and \$3,920,000, respectively.

NOTES TO FINANCIAL STATEMENTS, Continued

6. Commitments and Contingencies, continued:

Aggregate future minimum payments under this lease for the five years ending after June 30, 2002 are as follows (in thousands):

Year ending June 30,

2004	\$ 4,975
2005	2,963
2006	1,595
2007	923
2008	274
	<hr/>
	\$ 10,730

Liability Insurance

The Division is insured for professional and general liability under a claims-made policy maintained by FHC. For the period from July 1, 2001 through August 31, 2001, the Division was insured for losses up to \$20,000,000 per claim and in the aggregate, with a self-insured retention of \$100,000 per claim and \$1,000,000 in the aggregate. Effective September 1, 2001, the Division is insured for losses up to \$21,000,000 per claim and \$26,000,000 in the aggregate, with self-insured retentions of \$100,000 per claim and \$1,000,000 in the aggregate. Effective September 1, 2002, the Division is insured for losses up to \$15,000,000 per claim and in the aggregate, with self-insured retentions of \$400,000 per claim and \$2,000,000 in the aggregate. In addition, FHC maintains an umbrella policy providing professional and general liability coverage up to \$10,000,000 per claim and in the aggregate.

Claims reported endorsement (tail coverage) is available if the policy is not renewed to cover claims incurred but not reported. The Division anticipates that renewal coverage will be available at expiration of the current policy. The Division participates in the above policy with its affiliates. Per claim and aggregate limits are applicable to all covered entities as a group.

Litigation

The Division is from time to time subject to claims and suits arising in the ordinary course of operations. In the opinion of management, the ultimate resolution of such pending legal proceedings will not have a material effect on the Division's financial position or results of operations.

NOTES TO FINANCIAL STATEMENTS, Continued

7. Contract Requirements:

The Division is subject to Contract provisions which require the Division to maintain certain financial ratios, a net worth requirement of \$10,000,000 in the first year of the Contract and the maintenance of a performance bond equal to 110 percent of the first month's capitation as determined by ADHS-DBHS. In satisfaction of the bond requirement, the Division maintained a performance bond in the required amount of \$33,510,000 and \$27,708,000 for the years ended June 30, 2003 and 2002, respectively. The performance bond was renewed at the revised amount for a term, which expires in June 2004. Management believes that the Division is in compliance with these requirements.

As of June 30, 2003, the Division has reported less than the minimum number of encounters as stipulated in the Contract and is subject to a potential recoupment by the ADHS-DBHS of approximately \$2.0 million if no more encounters are submitted. The Division has until March 31, 2004 to submit encounters related to the year ended June 30, 2003. Management believes that sufficient encounters will be received by March 31, 2004 such that the Division will not be required to submit funds received back to the ADHS-DBHS. Accordingly, no amounts have been provided in the accompanying financial statements. Management believes that there will be no material impact on the Division's financial statements for the year ended June 30, 2003 related to this matter.

SUPPLEMENTAL SCHEDULES

ARIZONA DIVISION OF VALUEOPTIONS, INC.
SCHEDULE OF OPERATIONS BY FUNDING SOURCE
for the year ended June 30, 2003

	Title XIX Child	Title XIX DD Child	Non-Title XIX Child	Title XIX Child	HBI 2003 Child	Title XIX SMI	Title XIX DD SMI	Non-Title XIX SMI	HFA SMI	Title XIX SMI
REVENUE										
401. Revenue under ADHS/CRHS contract	\$ 58,446,371	\$ 3,503,878	\$ 8,270,905	\$ 2,331,625	\$ 4,439,933	\$ 151,415,498	\$ 2,346,013	\$ 74,096,881	\$ 2,154,958	\$ 224,544
402. Specialty and other grants	-	-	-	-	-	-	-	-	-	-
403. Client fees (reimburse)	-	-	-	-	-	9,608	-	10,926	-	-
404. Third party recoveries	-	-	-	-	-	-	-	-	-	-
A. Medicare	-	-	-	-	-	216,462	-	-	-	-
B. Other insurance	-	-	-	-	-	-	-	-	-	-
405. Interest income	-	-	-	-	-	-	-	689,555	-	-
406. Other	-	-	-	-	-	-	-	-	-	-
407. Unrelated business activities	-	-	-	-	-	-	-	-	-	-
408. TOTAL REVENUE	58,446,371	3,503,878	8,270,905	2,331,625	4,439,933	151,641,508	2,346,013	74,854,973	2,154,958	224,544
EXPENSES										
Service expenses:										
501. Treatment services										
A. Counseling										
1. Individual	6,470,084	282,928	1,183,444	583,808	-	4,823,705	64,513	2,623,477	488,982	177
2. Family	6,612,793	376,287	1,055,370	643,900	-	103,126	2,877	47,836	-	195
3. Group	340,941	6,175	160,217	40,917	-	1,701,228	4,308	249,105	33,934	12
B. Consultation, assessment and specialized testing	4,011,664	226,046	603,847	390,416	-	2,352,815	87,691	1,476,603	94,228	118
C. Other professional	27	-	2,522	-	-	-	-	3,479	-	-
D. Total treatment services	17,435,529	891,436	3,072,407	1,659,041	-	8,980,874	159,389	4,440,506	617,146	302
502. Rehabilitation services										
A. Living skills training	457,029	164,747	16,216	6,893	-	7,850,633	74,500	2,999,647	68,012	2
B. Cognitive rehabilitation	-	-	-	-	-	-	-	-	-	-
C. Health promotion	34,332	2,644	1,686	920	-	151,345	960	59,913	-	-
D. Supported employment services	3,942	-	377	1,840	-	2,134,374	127,353	837,633	42,793	1
E. Total rehabilitation services	495,304	167,393	18,479	9,678	-	10,136,352	212,803	3,897,193	115,805	3
503. Medical services										
A. Medication services	1,187	-	224	1,682	-	629,334	9,086	124,483	1,145	1
B. Medical management	3,064,406	336,160	334,240	237,341	-	2,662,121	79,072	1,470,544	72,003	78
C. Laboratory, radiology and medical imaging	48,359	8,823	8,485	4,174	-	390,444	26,008	422,898	35,598	1
D. Electroconvulsive therapy	-	-	-	-	-	7,872	-	7,714	-	-
E. Total medical services	3,033,552	345,983	342,889	263,197	-	3,879,774	114,166	2,025,641	108,748	80
504. Support services										
A. Case management	-	-	-	-	-	39,868,033	-	27,628,447	184,230	-
B. Personal assistance	307,990	146,500	2,718	933	-	8,478,623	100,216	2,529,332	-	-
C. Family support	315,703	39,173	32,856	22,131	-	41,411	-	35,384	-	7
D. Peer support	22,905	4,911	3,957	1,385	-	243,050	1,247	109,905	5,843	-
E. Therapeutic foster care services	99,635	-	-	-	-	-	-	-	-	-
F. Respite care	1,734,892	34,426	155,398	77,662	-	150	-	-	-	23
G. Housing support	-	-	-	-	-	-	-	1,073,532	-	-
H. Interpreter services	-	-	45,939	-	-	-	-	14,695	-	-
I. Flex fund services	-	-	291,899	-	-	-	-	208,072	6,550	-
J. Transportation	795,203	27,500	103,690	38,310	-	2,377,637	32,230	900,465	26,458	12
K. Block purchase Non-Title XIX consumer drop-in center	-	-	-	-	-	-	-	813,096	-	-
L. Total support services	3,276,328	292,512	637,457	140,621	-	51,990,524	133,693	33,712,928	223,071	42
505. Crisis intervention services										
A. Crisis intervention - mobile	338,273	31,121	167,486	21,136	-	328,210	111,782	319,984	2,333	6
B. Crisis services	111,147	4,064	41,129	13,339	-	1,354,597	55,690	192,492	12,723	4
C. Crisis Phones	-	-	-	-	-	1,669,096	-	1,335,428	-	-
D. Total crisis intervention services	449,420	35,185	208,615	34,475	-	3,553,903	167,472	2,068,104	15,056	10
506. Inpatient services										
A. Hospital										
1. Psychiatric	3,733,347	102,143	191,986	123,777	-	4,404,757	70,887	1,349,670	-	37
2. Detoxification	-	-	-	-	-	-	-	14,704	-	-
B. Subacute facility	-	-	648	-	-	-	-	-	-	-
1. Psychiatric	-	-	-	-	-	-	-	-	-	-
2. Detoxification	-	-	-	-	-	-	-	-	-	-
C. Residential treatment center (RTC)										
1. Psychiatric	9,003,474	143,633	1,087,700	70,700	-	18,594	-	13,099	-	21
2. Detoxification	-	-	-	-	-	-	-	-	-	-
D. Inpatient services, professional	269,785	2,189	16,772	12,219	-	90,730	9,839	68,637	-	4
E. Total inpatient services	13,006,606	247,967	1,296,707	206,696	-	4,528,787	80,726	1,431,406	-	62
507. Residential services										
A. Level II behavioral health facilities	3,931,524	38,031	146,308	46,033	-	9,947,318	15,431	4,017,124	-	14
B. Level III behavioral health facilities	225,476	-	402,541	-	-	2,534,700	-	556,500	-	-
C. Room and board	-	-	-	-	-	-	-	1,551,866	-	-
D. Total residential services	4,157,000	38,031	548,849	46,033	-	12,472,018	15,431	6,115,590	-	14
508. Behavioral health day programs										
A. Supervised day program	207,700	3,890	26,182	2,592	-	631,316	914	267,192	35,624	1
B. Therapeutic day program	903,943	7,171	203,280	40,760	-	2,028,475	19,443	883,216	57,028	12
C. Medical day program	112,308	4,120	3,245	2,158	-	4,525	-	1,387	-	1
D. Total behavioral day programs	1,223,951	15,181	232,707	45,510	-	2,664,311	30,377	1,151,795	112,652	14
509. Prevention services										
A. Prevention	-	-	-	-	-	-	-	-	-	-
B. HIV	-	-	-	-	-	-	-	-	-	-
C. Total prevention services	-	-	-	-	-	-	-	-	-	-
510. Medications	5,904,959	1,173,717	734,556	433,692	-	18,124,342	1,824,020	12,147,787	90,844	14,191
511. Other expense not reported above	-	-	-	-	-	4,035,780	-	-	-	-
512. ADHS/DOC COOL	-	-	-	-	-	-	-	-	-	-
513. Subtotal service expense	49,005,091	3,186,457	7,118,248	2,839,143	4,035,780	116,332,332	2,728,077	68,014,944	1,283,322	14,918
Administrative Expenses:										
601. Salaries	962,884	56,691	135,015	38,474	-	2,489,291	37,942	1,234,942	35,572	3,706
602. Employee benefits	251,895	13,066	35,882	10,225	-	661,552	10,094	326,077	9,454	985
603. Professional and outside services	208,368	12,368	29,217	8,326	-	538,683	8,219	265,515	7,698	802
604. Travel	6,940	409	973	277	-	17,941	274	9,843	256	27
605. Occupancy	283,720	16,822	40,364	11,417	-	738,656	11,271	364,081	10,555	1,390
606. Depreciation and amortization	99,140	5,818	13,904	3,940	5,977	254,393	3,911	126,354	3,463	382
607. All other operating	2,790,813	159,013	278,707	107,817	266,458	6,982,363	106,536	3,441,533	99,777	10,393
608. Subtotal administrative expense	4,519,780	246,107	633,762	180,398	272,436	11,084,739	178,287	5,759,347	166,975	17,397
701. Unrelated business expense	-	-	-	-	-	-	-	-	-	-
799. Income tax provision	1,912,001	19,935	201,390	(273,101)	51,172	9,178,028	(217,697)	736,578	274,537	74,689
800. TOTAL EXPENSE	55,436,872	3,472,499	7,953,400	2,766,440	4,309,288	127,195,299	2,688,607	74,500,869	1,724,434	107,604
801. Net income / (loss) after provision for income tax	\$ 3,009,499	\$ 1,031,379	\$ 317,455	\$ (434,815)	\$ 112,645	\$ 14,446,209	\$ (342,594)	\$ 454,084	\$ 430,524	\$ 117,540

FBI 2003 SMI	Title XIX GMH/SA	HIFA GMH	Mental Health	Substance Abuse	Prevention Intervention	PASARR	ADHS/DOC	Other	Subtotal	Management & General	Total
\$ 8,445,000	\$ 37,821,206	\$ 538,774	\$ 2,202,505	\$ 22,942,630	\$ 5,919,573	\$ 63,600	\$ 1,899,589	\$ -	\$ 386,865,312	\$ -	\$ 386,865,312
-	106	-	446	170	-	-	-	-	21,256	-	21,256
-	1,431	-	5,919	458	-	-	-	-	381,901	-	381,901
-	-	-	-	-	-	-	-	-	-	473,172	473,172
-	-	-	-	-	-	-	-	3,303,471	3,993,026	-	3,993,026
8,445,000	37,822,763	538,774	2,208,870	22,943,218	5,919,573	63,600	1,899,589	3,303,471	391,261,692	473,172	391,734,867
-	6,745,292	61,446	320,636	912,332	-	-	-	-	24,580,824	-	24,580,824
-	484,804	7,212	23,139	22,821	-	-	-	-	9,400,360	-	9,400,360
-	3,098,890	15,029	75,139	1,230,147	-	-	-	-	7,481,064	-	7,481,064
-	3,987,680	55,984	1,048,193	647,292	-	-	-	-	15,044,577	-	15,044,577
-	-	-	10,185	385,287	-	-	-	-	708,927	-	708,927
-	14,836,666	179,671	1,477,292	3,095,299	-	-	-	-	56,805,752	-	56,805,752
-	101,412	532	13,695	7,290	-	-	-	-	11,764,628	-	11,764,628
-	18,067	42	600	8,982	-	-	-	-	278,803	-	278,803
-	325,199	108	3,126	61,672	-	-	-	-	3,550,545	-	3,550,545
-	445,678	702	17,421	77,165	-	-	-	-	15,593,976	-	15,593,976
-	3,240,750	5,899	18,628	1,416,583	-	-	-	-	5,448,804	-	5,448,804
-	2,380,824	19,076	246,245	137,919	-	-	-	-	10,906,051	-	10,906,051
-	78,901	1,788	10,137	5,918	-	-	-	-	1,229,438	-	1,229,438
-	-	-	-	-	-	-	-	-	15,587	-	15,587
-	5,600,475	26,563	275,010	1,560,430	-	-	-	-	17,593,900	-	17,593,900
-	809,373	33,415	390,377	468,835	-	-	-	-	69,382,700	-	69,382,700
-	66,153	-	69	28	-	-	-	-	13,012,562	-	13,012,562
-	3,720	-	4,778	784	-	-	-	-	496,949	-	496,949
-	13,829	2,690	346,818	33,1450	-	-	-	-	1,109,990	-	1,109,990
-	660	-	-	-	-	-	-	-	99,633	-	99,633
-	-	-	8,241	-	-	-	-	-	2,003,211	-	2,003,211
-	-	-	13,844	-	-	-	-	-	1,081,877	-	1,081,877
-	-	-	60,673	76,416	-	-	-	-	74,478	-	74,478
-	3,075,444	1,383	353,819	230,619	-	-	-	-	643,610	-	643,610
-	-	-	-	389,950	-	-	-	-	7,983,190	-	7,983,190
-	3,969,179	37,688	1,176,723	1,518,092	-	-	-	-	1,183,056	-	1,183,056
-	-	-	-	-	-	-	-	-	97,071,238	-	97,071,238
-	517,084	3,501	800,687	84,663	-	-	-	-	2,926,868	-	2,926,868
-	2,740,037	9,919	1,171,662	1,252,334	-	-	-	-	7,361,577	-	7,361,577
-	32,428	-	15,207	18,455	-	-	-	-	2,890,715	-	2,890,715
-	3,290,150	13,420	1,987,656	1,355,472	-	-	-	-	13,179,160	-	13,179,160
-	1,134,264	-	933,554	44,917	-	-	-	-	12,109,579	-	12,109,579
-	23,542	-	-	2,276	-	-	-	-	40,542	-	40,542
-	-	-	-	-	-	-	-	-	648	-	648
-	404	-	-	-	-	-	-	-	10,339,629	-	10,339,629
-	13,506	-	16,654	407	-	-	-	-	500,343	-	500,343
-	1,171,976	-	950,208	47,600	-	-	-	-	22,990,741	-	22,990,741
-	5,673,929	22,877	71,852	1,174,927	-	-	-	-	25,105,168	-	25,105,168
-	-	2,861	115,667	1,206,585	-	-	-	-	3,336,258	-	3,336,258
-	5,673,929	25,538	187,319	2,381,312	-	-	-	-	3,279,620	-	3,279,620
-	-	-	-	-	-	-	-	-	31,711,046	-	31,711,046
-	10,640	592	2,794	828	-	-	-	-	1,212,265	-	1,212,265
-	1,775,777	5,984	38,664	1,087,602	-	-	-	-	7,652,379	-	7,652,379
-	2,150	-	-	-	-	-	-	-	130,186	-	130,186
-	1,788,547	6,576	41,438	1,088,430	-	-	-	-	8,294,826	-	8,294,826
-	-	-	-	-	5,710,347	-	-	-	5,710,347	-	5,710,347
-	-	-	-	393,034	-	-	-	-	393,034	-	393,034
-	-	-	-	393,034	5,710,347	-	-	-	6,103,381	-	6,103,381
-	8,171,892	41,521	253,808	26,120	-	-	-	-	49,961,469	-	49,961,469
7,712,529	-	-	-	-	-	58,512	-	-	11,806,821	-	11,806,821
-	-	-	-	-	-	-	1,563,622	-	1,563,622	-	1,563,622
7,712,529	44,948,512	291,679	6,369,095	11,543,144	5,710,347	58,512	1,563,622	-	332,775,952	-	332,775,952
-	822,950	8,885	36,335	407,161	97,173	1,084	28,966	315,468	6,504,599	37,245	6,541,844
-	165,555	2,341	9,656	108,207	25,825	288	7,698	83,839	1,728,659	9,930	1,738,589
-	134,807	1,923	7,863	88,110	21,028	235	6,268	68,267	1,407,597	8,086	1,415,683
-	4,490	64	262	2,934	700	8	209	2,274	46,881	269	47,150
-	184,830	2,637	10,782	120,818	28,834	322	8,395	93,610	1,930,134	11,088	1,941,222
11,545	64,153	915	3,742	41,930	10,007	112	2,983	32,488	487,381	3,848	491,229
514,702	1,747,335	24,932	101,917	1,142,055	272,562	3,040	81,248	884,862	19,026,048	104,807	19,130,855
526,247	2,924,130	41,708	170,557	1,911,215	456,130	5,089	135,967	1,480,808	31,331,299	179,383	31,506,682
-	-	-	-	-	-	-	-	-	-	-	-
80,121	(3,904,172)	79,793	(1,082,506)	3,886,432	(95,822)	-	-	708,101	10,817,383	115,687	10,933,070
8,318,897	43,968,270	413,180	4,857,146	17,140,791	6,070,555	63,601	1,899,589	2,188,913	374,924,634	291,080	375,215,714
126,112	(6,145,507)	125,594	(2,648,276)	5,802,467	(150,982)	(1)	-	1,114,538	16,337,061	182,092	16,519,153

ARIZONA DIVISION OF VALUEOPTIONS, INC.
SCHEDULE OF OPERATIONS BY FUNDING SOURCE - SCHEDULE A DISCLOSURES
for the year ended June 30, 2003

	Title XIX Child	Title XIX DD Child	Non-Title XIX Child	Title XIX Child	HB 2003 Child	Title XIX SMI	Title XIX DD SMI	HBFA SMI	Non-Title XIX SMI	Title XIX SMI
UNEARNED REVENUE FOR CURRENT YEAR										
Revenue under ADHS/DBHS contract	\$ -	\$ -	\$ -	\$ -	\$ (2,278,424)	\$ -	\$ -	\$ -	\$ -	\$ -
Other (disclose)										
St. Lukes grant										
Total unearned revenue	\$ -	\$ -	\$ -	\$ -	\$ (2,278,424)	\$ -	\$ -	\$ -	\$ -	\$ -
DISCLOSURE OF OTHER GRANTS REPORTED ON LINE 402										
Source:										
Total other grants	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
DISCLOSURE OF OTHER REVENUE REPORTED ON LINE 406										
Itemization of other revenue:										
Case home administration	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Competitive gaming										
Housing - Shogate Village & HUD 125									\$ 689,555	
Miscellaneous										
Pharmacy rebates										
Rehabilitative Services Administration										
St. Lukes grant										
Total other revenue	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 689,555	\$ -
UNRELATED BUSINESS ACTIVITIES REPORTED ON LINE 407										
Source of revenue:										
Total unrelated business activities	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
DISCLOSURE OF OTHER EXPENSES REPORTED ON LINE 511										
Itemization of the items reported on Line 511										
HB 2003 Children and Adult services	\$ -	\$ -	\$ -	\$ -	\$ 4,035,780	\$ -	\$ -	\$ -	\$ -	\$ -
PASARR										
Total other expenses	\$ -	\$ -	\$ -	\$ -	\$ 4,035,780	\$ -	\$ -	\$ -	\$ -	\$ -
DISCLOSURE OF NON-ADHS SERVICE EXPENSES										
Shogate Village service value	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 689,555	\$ -
Total Non-ADHS Service Expenses	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 689,555	\$ -
DISCLOSURE OF NON-ADHS ADMINISTRATIVE EXPENSES										
Case home	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Pharmacy benefit management										
Rehabilitative Services Administration										
St. Lukes grant										
Total Non-ADHS Administrative Expenses	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Change in estimate:										
META reclassification due to loss of JCAHO accreditation										
						Dr.				Cr.
Non-Title XIX Child						\$ 209,350				
Non-Title XIX SMI						719,748				
Non-Title XIX OMBI						240,740				
Title XIX Child							187,908			
Title XIX SMI							719,748			
Title XIX OMBUSA							240,740			
Title XXI Child							21,422			
						\$ 1,169,838	\$ 1,169,838			

Note: The journal entry above was recorded in 2003 as a change in estimate relating to 2002. It is included on this schedule at the request of the ADHS-DBHS for their reporting purposes. The entry was made by the Division at the request of the ADHS-DBHS. META, a provider for the Division that operates a JCAHO accredited facility, allowed its accreditation to lapse. During 2003, the ADHS-DBHS has informed the Division that for the period of time for which META had no accreditation, all payments made to META be classified as Non-Title XIX rather than as Title XIX.

c. Attachment H: Estimated Expenditure

Attachment H: Estimated Expenditure

Contract Year 2005					Offeror Name:	ValueOptions, Inc.
Category of Service	Title XIX				Non-Title XIX	Non-Title XIX
	Child*	Child CMDP	SMI	GMH/SA	SMI	SA
501 Treatment Services	24.00%	13.00%	6.00%	23.00%	6.00%	27.00%
502 Rehabilitation Services	2.75%	1.50%	7.00%	1.00%	4.50%	1.00%
503 Medical Services	5.00%	1.50%	5.00%	10.00%	4.50%	9.00%
504 Support Services	30.50%	22.00%	48.00%	22.25%	44.00%	22.25%
505 Crisis Intervention Services	1.00%	1.00%	1.75%	2.50%	1.75%	10.00%
506 Inpatient Services	7.50%	34.00%	1.75%	2.50%	1.75%	6.25%
507 Residential Services	1.75%	6.50%	2.50%	8.00%	2.50%	4.50%
508 Behavioral Health Day Programs	1.50%	1.00%	1.00%	1.75%	1.00%	3.50%
510 Medications	18.50%	12.00%	16.00%	18.00%	23.00%	5.50%
513 Subtotal	92.50%	92.50%	89.00%	89.00%	89.00%	89.00%
Administration/Profit/Contingencies	7.50%	7.50%	11.00%	11.00%	11.00%	11.00%
Total	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%

Contract Year 2006						
Category of Service	Title XIX				Non-Title XIX	Non-Title XIX
	Child*	Child CMDP	SMI	GMH/SA	SMI	SA
501 Treatment Services	23.00%	11.50%	5.00%	22.00%	5.50%	25.75%
502 Rehabilitation Services	2.50%	1.50%	8.00%	1.50%	5.00%	1.00%
503 Medical Services	4.00%	1.50%	5.00%	10.00%	4.50%	9.00%
504 Support Services	32.50%	27.00%	48.00%	23.00%	44.50%	24.25%
505 Crisis Intervention Services	1.00%	1.00%	1.75%	1.50%	1.75%	10.50%
506 Inpatient Services	6.00%	29.00%	1.75%	1.50%	1.75%	5.50%
507 Residential Services	1.50%	5.00%	2.50%	9.00%	2.00%	4.50%
508 Behavioral Health Day Programs	1.00%	1.00%	1.00%	2.50%	1.00%	3.50%
510 Medications	17.50%	11.50%	16.00%	18.00%	23.00%	5.00%
513 Subtotal	89.00%	89.00%	89.00%	89.00%	89.00%	89.00%
Administration/Profit/Contingencies	11.00%	11.00%	11.00%	11.00%	11.00%	11.00%
Total	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%

Attachment H: Estimated Expenditure

Contract Year 2007

Offeror Name: ValueOptions, Inc.

Category of Service	Title XIX				Non-Title XIX	Non-Title XIX
	Child*	Child CMDP	SMI	GMH/SA	SMI	SA
501 Treatment Services	22.00%	10.00%	4.50%	21.00%	4.50%	24.00%
502 Rehabilitation Services	2.50%	1.50%	8.50%	1.75%	4.50%	1.75%
503 Medical Services	4.00%	1.50%	4.50%	10.00%	4.50%	9.00%
504 Support Services	35.00%	33.00%	49.00%	23.50%	46.00%	26.00%
505 Crisis Intervention Services	1.00%	1.00%	1.50%	1.25%	1.75%	10.75%
506 Inpatient Services	5.00%	25.00%	1.50%	1.25%	1.75%	4.50%
507 Residential Services	1.00%	4.50%	2.50%	9.75%	2.00%	4.50%
508 Behavioral Health Day Programs	1.00%	1.00%	1.00%	2.50%	1.00%	3.50%
510 Medications	17.50%	11.50%	16.00%	18.00%	23.00%	5.00%
513 Subtotal	89.00%	89.00%	89.00%	89.00%	89.00%	89.00%
Administration/Profit/Contingencies	11.00%	11.00%	11.00%	11.00%	11.00%	11.00%
Total	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%

Note: Total should equal 100%

*** Does not include children that are enrolled in CMDP**

NOTES TO ESTIMATED EXPENDITURES:

- A. TAX EXPENSE HAS BEEN ALLOCATED AND IS REPORTED IN THE VARIOUS SERVICE CATEGORIES.
- B. NO PROVISION HAS BEEN MADE FOR THE 1% INCENTIVE PAYMENTS REFERENCED IN THE RFP.

d. Statement of Capitation Rate Selection

ValueOptions, Inc. chooses to accept the capitation rates that DHS will develop in its customary rate development process. We understand that this process will conclude in approximately May 2004 and will consider more recent encounter and financial data.

e. Cost Containment

ValueOptions understands that cost containment strategies must ensure that consumers have timely access to quality behavioral health care services. Appropriate methods of cost containment help create a stable, productive provider network that makes maximum use of scarce resources and assists the greatest number of consumers through cost-effective service delivery models. This section summarizes ValueOptions' cost containment strategies for Maricopa County.

Overview of Cost Containment Strategies

ValueOptions uses a variety of strategies to contain costs while ensuring timely access to care. The most important of these involve the implementation of sound management and accountability structures, including:

- *strong fiscal and administrative protocols* to establish budgets, guide contract development, and monitor fiscal performance in conjunction with clinical and quality management oversight systems;
- *efficient contracting mechanisms* that maximize service delivery and provider accountability;
- *streamlined network management protocols*, including analysis of needed capacity and the targeted use of funds to implement system priorities;
- *cost-efficient utilization management systems* that minimize ValueOptions' and providers' administrative expenses, while effectively managing utilization within system budgets; and
- *innovative use of technology* to increase administrative efficiencies within and between ValueOptions and its provider agencies.

Cost Containment Strategies

Strong Fiscal and Administrative Protocols

ValueOptions has a proven track record of combining fiscal responsibility with clinical accountability. Since 1999, we have demonstrated our ability to contain costs in Maricopa County while providing quality care that is innovative and responsive to community needs. Our fiscal and administrative protocols effectively support clinical, network, and quality management staff in the execution of their duties. These protocols are designed to provide internal controls and warning systems to alert staff and management when expenditures exceed pre-established thresholds. These protocols ensure consistency and provide important checks and balances in our administrative operations, including; information processing, claims adjudication, contracting, and budgeting. The key fiscal and administrative protocols that ValueOptions uses to control costs are outlined in the paragraphs that follow.

Establishing Budgets and Priorities for Service Expenditures

Finance staff work closely with clinical and network staff to establish an annual budget with fiscal targets by fund type and level of care. This cross-departmental process results in a budget that both supports the clinical goals of the behavioral health system and ensures that projected service expenditures are in line with projected revenue. In addition, a key part of budget establishment is the identification of priorities for non-Title XIX funds to ensure that we obtain maximum value for these limited funds. As non-Title XIX funds do not increase proportionately to increased population growth, it is critical that ValueOptions - in collaboration with consumers, stakeholders, and providers - establish priorities for the use of these funds. Specific examples of this type of collaboration include our working with the community to establish non-Title XIX service priorities for children and adolescents with the Arizona Department of Juvenile Corrections and Juvenile Probation to identify non-Title XIX House Bill 2003 service priorities. Once established, we use the budget to monitor projected expenditures and revenues to actual performance. This process is discussed in further detail in the monitoring fiscal performance section below.

Contract Development

Network Management and Program Development Department staff collaborate with finance staff to develop contracts and ensure that we maintain an adequate provider network. Finance staff take the lead in analyzing anticipated program costs and predicting revenue. Finance and Network Management and Program Development departments work together to ensure that an adequate network is in place and that variances in service expenditures compared to estimated revenues are reviewed both internally and with providers to determine the source of the variances and any needed adjustments. Our experience in Maricopa County has taught us that the establishment of an estimated annual contract amount by fund type is essential to contain costs because it allows for allocation of resources at the delivery system level and flexibility in allocating resources across providers based on the demand for services. A more effective use of resources helps to contain costs. We will continue to use this important cost-containment mechanism. In addition, we will enhance our management of contract amounts by fund types. Providers are currently held to total encounter thresholds and contract ceilings. ValueOptions is enhancing this

system to hold providers to minimum encounter thresholds by fund type within contract ceilings. In addition, the Chief Executive Officer, Chief Financial Officer and key Network Management staff approve all contracts. This control ensures that contract dollars are available for expenditure. The Network Management and Program Development Department, in collaboration with finance staff, informs internal staff and providers about contract amounts and encounter thresholds and makes contract adjustments.

Provider Competition

ValueOptions intends to seek competitive prices and quality from its providers. Providers who are efficiently run and organized and who provide quality care at reasonable prices will be preferred. Provider competition in the areas of pricing and quality helps contain costs because it encourages provider efficiency and effectiveness.

Monitoring Fiscal Performance

RBHA fiscal performance is monitored through the analysis of monthly financial statements that are reviewed at monthly financial and operations meetings. Immediate action is taken if expenditures are not in line with revenues; enabling both administrative expenses and service utilization to be proactively managed. Types of action that may be taken include: researching trends at a detailed level, facilitating the development of corrective actions with clinical and network staff; and designing new services to address service gaps that contribute to unnecessary utilization of higher levels of care. Specific examples of actions ValueOptions has taken in response to rising inpatient expenditures include: stationing dedicated care managers at the primary inpatient facility, monitoring the inpatient census on weekends as well as weekdays, developing a specialized mobile team for persons with Developmental Disabilities, and adding a 32-bed Crisis Recovery Unit to provide a cost-effective alternative to acute inpatient.

We manage provider fiscal performance through encounter validation, comparison of encounters to payment, and fiscal and cross-departmental provider monitoring. ValueOptions has used these techniques over the past five years to effectively manage costs. We will enhance our provider fiscal monitoring to ensure that early identification systems for underproduction within fund type categories are in place, that rapid corrective action is systematically taken when indicated, and that additional provider technical assistance is available to an even greater degree to assist providers having difficulty with fiscal performance. We intend to use the strategies below to assist in our efforts to increase access to quality care and to improve provider productivity.

Encounter Validation

We use encounter validation to confirm that covered services are encountered timely, correctly, and completely. ValueOptions uses encounter validation to monitor provider submission of claims and encounters and to test for timeliness, completeness, and accuracy. Any observed irregularities are reported to the ValueOptions Arizona Compliance Officer for further review. Encounter validation data are incorporated into cross-departmental provider monitoring.

Monitoring of Encounter under Production by Fund Type

ValueOptions currently runs monthly encounter value production reports by fund type to compare production to contract payments. The Finance Department uses these reports to validate provider payments, to alert providers when they are not meeting contract thresholds, and to alert clinical and network staff of potential provider performance issues. Clinical and network staff members work directly with providers to determine the severity of the problems, to provide technical assistance, and to initiate corrective action when indicated. Effective July 1, 2004, provider monitoring will be enhanced to include:

- making encounter production reports by fund type available to all providers and key management personnel;
- analyzing encounter production among the 10 largest providers in contract value, the 10 providers with the greatest variance between encounter value and contract payments, and any provider with a 50% variance in encounter value to contract payments within any fund type category;
- running monthly reports to identify outliers and determining appropriate follow up, including further monitoring and/or dispatching of a multi-disciplinary team for on-site review of fiscal and clinical operations;
- reporting suspected irregularities to the ValueOptions Arizona Compliance Officer for further review and investigation;
- presenting results of outlier monitoring and follow-up action results to the Executive Management Team for review and approval;
- monitoring provider encounter value production by the ADHS/DBHS reconciliation groups and adjusting fund distribution quarterly, at a minimum, and more frequently if warranted; and
- identifying positive outliers to use as potential best practice models with other providers.

Fiscal monitoring of provider performance

ValueOptions uses a variety of performance measures to monitor provider fiscal and operational performance including:

- measuring individual provider performance, as indicated by production of encounter value equivalent to contract payments, number and type of services provided, ability to meet programmatic contract requirements, and ability to intake and engage priority consumers;
- measuring individual provider operational efficiency, including the analysis of total, direct and administrative expenses to revenue and of cost per consumer by unit of service and episode of care;
- monitoring financial management protocols, including the establishment of budget goals/targets and the management of expenditures to budget projections; and
- measuring staffing levels and productivity by evaluating provider caseloads, encounter production against available staff hours, and ratio of direct care to administrative staff.

Cross-departmental Monitoring of Fiscal Performance, Productivity and Capacity

Fiscal and administrative staff in collaboration with Network Management and Program Development, Clinical and Quality Management departments will develop and implement cross-departmental provider monitoring by April 1, 2004. A multi-disciplinary team will systematically review outlier performers. This process is an expansion of ValueOptions' current use of the multi-disciplinary team review process for providers identified as needing special assistance. Outliers will be determined by the encounter production categories described above as well as quality, access to care, and productivity indicators. The Director of Network Management and Program Development will oversee this cross-departmental monitoring process and forward results to the Quality Management/Utilization Management Committee for review and determination of follow up.

Efficient Contracting Systems

ValueOptions structures our provider contracts to maximize the use of available funding, ensure an adequate provider network, and provide the foundation for provider accountability. ValueOptions contracts with providers through various funding mechanisms, including block purchases for availability, prospectively paid block payments tied to minimum capacity and encounter requirements, and fee for service arrangements. The funding mechanisms developed by ValueOptions ensure that a full continuum of services is available. Block purchases and payments, in particular, have several advantages in public sector behavioral health systems. Block purchases and payments appropriately designed and monitored can:

- ensure the availability of critical services for consumers at a fixed annual cost to ValueOptions. For example, ValueOptions has block purchased crisis services to ensure availability 24 hours a day, 7 days a week at fixed annual costs;
- tie prospective block payments to minimum capacity requirements and fund type mix, which maximizes use of scarce resources. As an example, ValueOptions pays outpatient providers monthly on a prospective basis and reconciles payments to encounter value production periodically throughout the year, in order to ensure capacity and maximize resources; and
- identify contract dollars by fund type in provider contracts to help providers understand and manage the service dollars they receive across all service populations.

ValueOptions analyzes the most cost-efficient system design and service delivery models and focuses on these in contract development. Examples of this procedure include the development of the Rapid Response Teams that are dispatched to emergency rooms and specialized mobile teams that serve consumers with developmental disabilities. Both of these services provide timely, quality services targeted to meet specific population needs. In addition, both services are designed to prevent unnecessary inpatient hospitalization, the most costly level of care, through the provision of timely and responsive crisis intervention.

Streamlined Network Management Protocols

ValueOptions has been able to re-direct system resources by streamlining our procedures for managing the provider network. Examples include distributing the Provider Manual and Provider Notices electronically, having provider forms posted on the ValueOptions Web site, and delegating credentialing to accredited providers that meet delegation requirements. ValueOptions will continue to create efficiencies in this manner, including streamlining the credentialing process to conform to the ADHS/DBHS credentialing requirements by February 1, 2004. ValueOptions also has enhanced its network management protocols for assessing capacity and targeting funds on system priorities. We have accomplished this by:

- analyzing provider capacity, including review of the provider's clinical models, intake and treatment capacity, and utilization. For example, ValueOptions' analysis resulted in the development of monthly minimum intake targets for Title XIX children and adolescents and adults with general mental health and substance abuse disorders.
- analyzing service need and gaps through collaboration with providers and clinical staff and advanced mapping technology. For instance, ValueOptions Network Management and Program Development Department analyzed high

need ZIP code areas and required that Comprehensive Service Providers locate all new sites in one of the 10 ZIP code areas with the highest number of eligibles, unless otherwise approved.

- aligning contract dollars with principles of care. Examples include giving incentives to providers that met performance targets for a Latino youth initiative and increasing contract amounts for providers that are making substantial movement in implementing the *Arizona Children's System Vision and Principles*.

Cost-efficient Utilization Management Systems

Streamlining Utilization Management to Minimize Expense for Providers and RBHA

As described in *Volume 4.a 9-10*, ValueOptions implements utilization management systems that allow easy access to care for consumers, streamlines authorization requirements for providers, and effectively manages utilization. We do this by focusing intensive utilization management efforts on the highest levels of care and by using retrospective review for lower, less costly levels of care. Intensive Utilization Management involves the use of real time data and specialized staff with close oversight by senior management. While this section focuses on managing costs, *Volume 4* explains how information will be used to improve quality of care, access to services, and achieve strategic initiatives at both the Regional Behavioral Health Authority (RBHA) and provider level.

Pharmacy Cost Management

The rising cost of providing psychotropic medications has become an increasing challenge. ValueOptions has contained pharmacy costs in Maricopa County well below national trends. While medication costs increased 18 percent nationwide last year, Maricopa County saw the average pharmacy cost per consumer increase by less than 1 percent. Figure 6e.1 shows that since 2002 we have been able to hold pharmacy costs per user constant while decreasing the number of prescriptions per user, thereby improving the quality of care for consumers through polypharmacy management. ValueOptions will continue to manage the pharmacy benefit through multiple strategies including:

- The Pharmacy & Therapeutics Committee will continuously review medication safety, efficacy, bio-equivalency, and cost-efficiency.
- We will continue to manage polypharmacy by implementing best practice guidelines and prescriber education.
- We will continue to control costs by utilizing state-of-the-art real-time processing.
- We will continue to engage in aggressive pharmacy contracting and pricing strategies, as well as provider education, to control total pharmacy costs.

Innovative Use of Technology

ValueOptions will continue to implement cost-efficient automated processes for the RBHA and providers. These automated processes, which are fully described in *Volume 5*, replace more costly and time-consuming manual ones. Examples include:

- development of software to enable providers to edit or “scrub” data prior to submission to ValueOptions, thereby reducing errors and the staff time devoted to manually correcting them;
- implementation of Web-based systems for the transmission of data and reports between ValueOptions and its contracted providers; and development and distribution of key management reports that eliminate the need for providers to use scarce information system resources to develop them internally. Future enhancements include the planned development of an electronic provider directory and a Web-based capacity management system to enable ValueOptions and provider staff to conduct their work more efficiently.

